gateway to the household

mail's here

UNITED STATES POSTAL SERVICE

An American family celebrates an American tradition—the arrival of the U.S. Mail.

There's a moment each day in every household in America when someone gets the mail. Maybe it's after school or after work or the minute it arrives. A moment when people stop whatever they're doing and pick up the mail and go through it. No other channel of communication receives that kind of direct, immediate, focused attention. Not television. Not radio. Not the Internet.

The U.S. Mail. It touches every American.

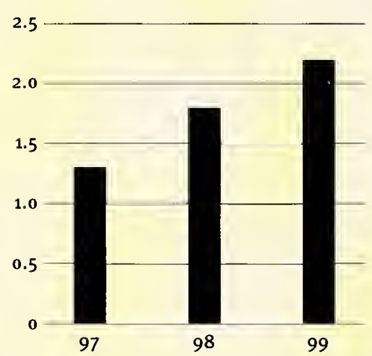
Contents

Financial Highlights

(dollars in millions)	Years Ended September 30 1999	1998	1997	Percentage Change from Preceding Year 1999	1998	1997
Operating revenue	**$ 62,726**	$ 60,072	$58,216	**4.4%**	3.2%	3.2%
Operating expenses	**60,631**	57,778	54,873	**4.9%**	5.3%	3.3%
Operating income	**2,095**	2,294	3,343			
Operating margin	**3.3%**	3.8%	5.7%			
Federal POD costs shifted to USPS(1)	**$ 11**	$ 8	$ 258			
Net income	**363**	550	1,264			
Capital cash outlays(2)	**$ 3,624**	$ 2,950	$ 3,075	**22.8%**	-4.1%	33.9%
Total debt	**6,917**	6,421	5,872	**7.7%**	9.3%	-0.8%
Interest expense on borrowings	**158**	167	307	**-5.4%**	-45.6%	-16.6%
Capital contributions of U.S. government	**$ 3,034**	$ 3,034	$ 3,034			
Accumulated losses at end of year(3)	**(3,481)**	(3,844)	(4,394)			
Total net capital deficiency(4)	**(447)**	(810)	(1,360)			
Number of career employees	**797,795**	792,041	765,174	**0.7%**	3.5%	0.6%
Mail volume (millions of pieces)(5)	**201,576**	196,905	190,888	**2.4%**	3.2%	4.1%

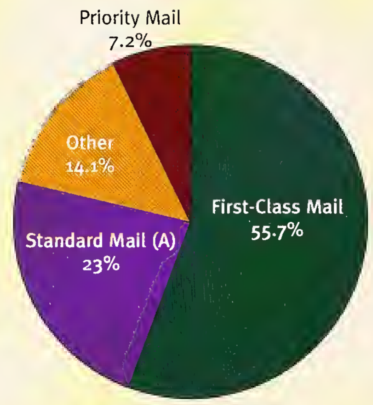
Cumulative Net Income— Last Three Years

$ billions



Our income statement reflects cumulative net income of $2.2 billion. We accomplished this through aggressive cost management, bringing our five year cumulative total to $5.5 billion.

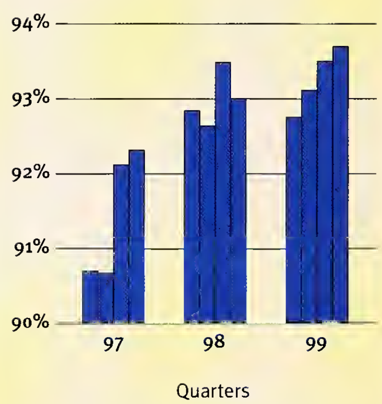
Sources of Revenue



In 1999, 86% of all Postal Service revenue came from three types of mail: First-Class Mail, Standard Mail (A) and Priority Mail.

Service

service performance indicators



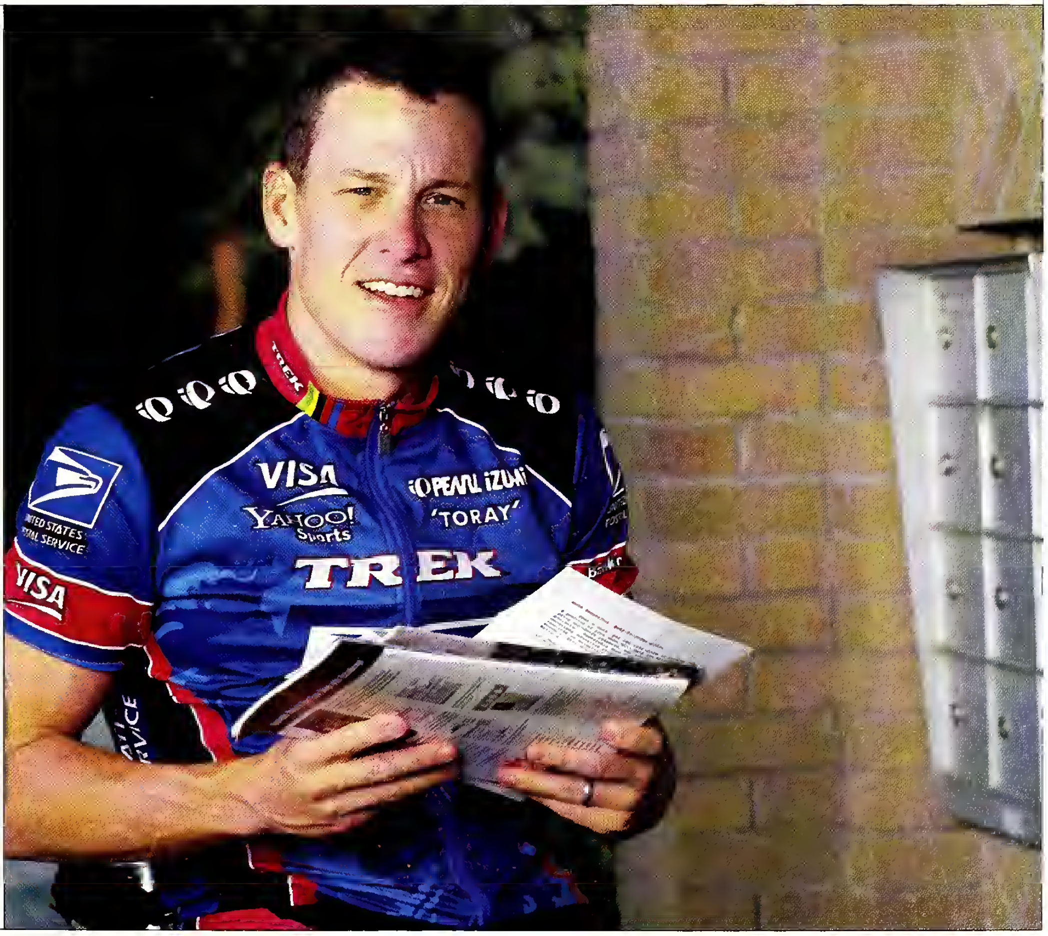
We achieved our best service performance in 1999 with nearly 94 percent of First-Class Mail achieving the overnight commitment in two quarters.

(1) The federal government transferred pre-1972 Post Office Department (POD) workers' compensation liability to the Postal Service in 1997. See Note 3 of the Financial Statements for a complete explanation.
(2) Does not include capital leases and impact of reclassifications and adjustments included in audited financial statements.
(3) Losses accumulated since Postal Service was created in 1971 with mandate to set rates such that revenue covers costs.
(4) Net capital deficiency equals capital contributions less accumulated losses at beginning of year plus net income.
(5) 1998 revised.

1999 Highlights

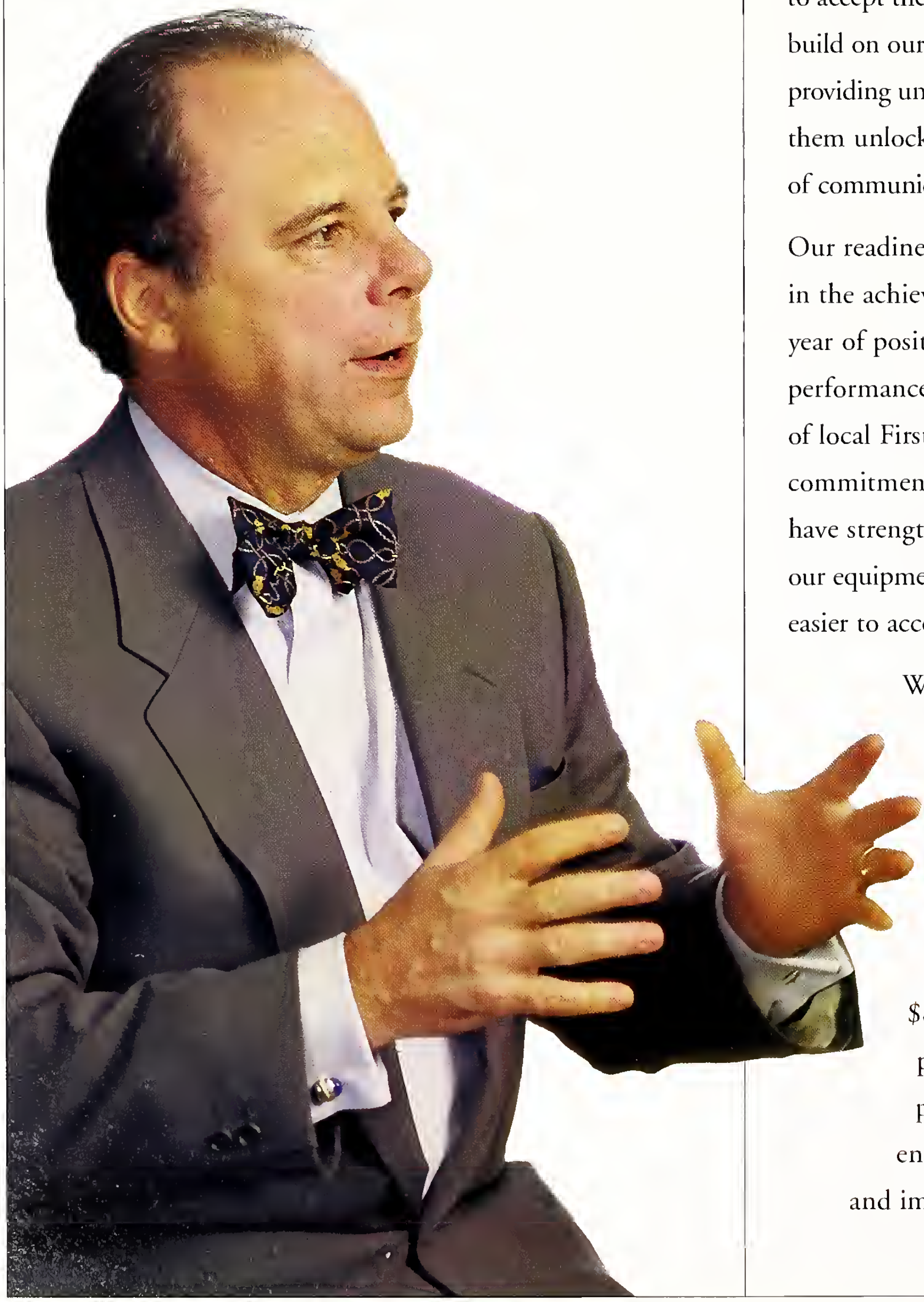
- Achieved record revenue of almost $63 billion and recorded an unprecedented fifth straight year of positive net income.
- In January 1999, implemented the lowest rate change in postal history—a one-cent increase for a First-Class stamp, less than 3% overall increase after four years of holding rates steady.
- Mail volume in 1999 for the first time exceeded 200 billion pieces.
- Achieved best overall performance for on-time local First-Class Mail delivery by achieving national record average high of nearly 94% in two quarters, with more service areas included in the sample than ever before.
- Fully 93% of the nation's households at the end of the year rated their overall satisfaction with the Postal Service as excellent, very good or good.
- Delivery Confirmation™ launched nationwide in March. By year end, more than one million shipments per week included Delivery Confirmation service.
- Negotiated labor agreements were ratified in January with two major postal unions—the American Postal Workers Union and the National Postal Mail Handlers Union—marking the first negotiated labor agreements reached with these two unions since 1987.
- Introduced PC Postage™ nationwide—digital postage that can be purchased and printed on personal computers.
- Priority Mail Global Guaranteed™ service, an alliance with DHL Worldwide Express, Inc. launched in April, provides day-certain delivery guarantees to 65 countries around the world.
- Launched Returns@ease,™ a set of merchandise return options that makes returning items bought online, through catalogs and by phone easier for buyers and participating retailers.
- Implemented REDRESS—a mediation program that transforms employee-supervisor relationships and offers an alternative for Equal Employment Opportunity (EEO) complaint processing. Program realized an 81% closure rate and 19% reduction in formal EEO complaints in 1999.

Lance Armstrong, member of the USPS Pro Cycling team and 1999 winner of the Tour de France, getting his mail.



"Only the United States Postal Service provides the American people with a secure and efficient connection that binds our nation together. Only the United States Postal Service is the universal gateway to the American household."

William J. Henderson



To the Congress

The Postal Service stands with the American people on the threshold of a new millennium. The twenty-first century will continue to produce great advances in communications and commerce, and the Postal Service is fit and ready to accept the challenges of the new century. We will build on our legacy of binding the nation together by providing universal service to all Americans and help them unlock the potential of the growing universe of communications.

Our readiness for the challenges ahead is reflected in the achievements of 1999: a fifth consecutive year of positive net income and our best service performance in First-Class Mail, with nearly 94% of local First-Class Mail achieving the overnight commitment during the last half of the year. We have strengthened our infrastructure, modernized our equipment, and made our products and services easier to access and use.

We accomplished this outstanding record while meeting the most stringent financial challenge in our history. By delaying implementation of the rate increase from the summer of 1998 to January 1999, planned revenues were lowered, resulting in an $800 million dividend for the American public. Even with this reduction to planned revenue, the Postal Service ended 1999 with a positive net income and improved service performance.

and the American people

The outstanding financial performance of Fiscal Year 1999 provided an important learning experience for the nearly 800,000 dedicated career men and women of the Postal Service. We characterized our performance as a lifestyle change, not a crash diet, because of the competitive realities of our marketplace. Direct and indirect competition is growing. Formidable forces like privatized and deregulated foreign posts, advances in communications technology, and consumer demand fueled by dramatic growth in Internet commerce make raising the quality and ease of use of our products and services more imperative every day.

Only the United States Postal Service delivers to everyone, everywhere, every day. Only the United States Postal Service provides the American people with a secure and efficient connection that binds our nation together. Only the United States Postal Service is the universal gateway to the American household.

Mail is an experience we all share. Opening and reading the mail is an integral part of daily life in America. It's a daily rite that encourages commerce and communication, that connects families and friends, governments and citizens, publishers and readers, businesses and customers, charities and donors. The American people rely on the mail and use the mail because they trust the mail and the men and women who collect, process and deliver it.

As our nation and the Postal Service move forward into a new century, we face both challenge and opportunity. The Postal Service must compete to preserve the universal service network and the quality of life that network promotes for the American people. We must continue to develop products and services that retain their relevancy and value for customers with changing needs. We must continue to be productive and effective as competition renders our letter mail monopoly less relevant. We must continue to combine private sector efficiency and customer focus with our commitment to excellence in government.

The Postal Service is ready to continue its historic journey into the new millennium confident that its future will be forged in concert with America's future and the vision of its citizens and leaders.

I am proud of the men and women of the Postal Service who made the successes of this past year possible. Together we will deliver in the future.

William J. Henderson
Postmaster General and Chief Executive Officer
United States Postal Service

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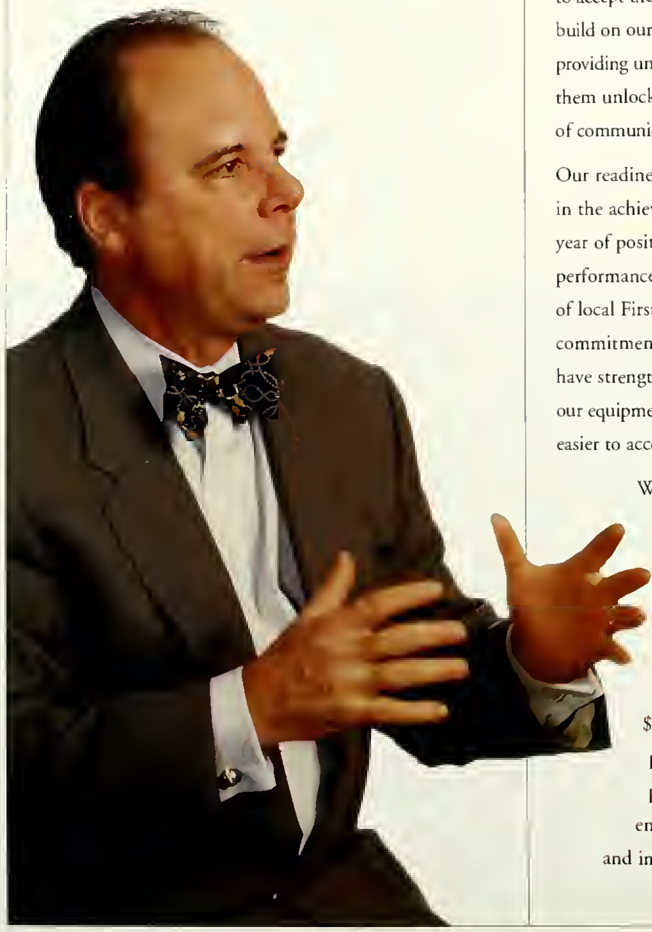

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universal access

Stage and screen actors Ruby Dee and Ossie Davis, married for more than 50 years, at their home in New Rochelle, NY, picking up their mail.

Access. We deliver to every household in the United States. And every American has access to our services. We not only deliver letter mail and messages, parcels and packages, we pick up letters and parcels everywhere we go. And we maintain retail outlets in 38,000 locations across the United States. That's because we operate under a universal service mandate, a mandate to serve everyone, everywhere, every day.

universal service

the gateway to

Our national distribution network gives us unparalleled access to every American household. We call our infrastructure, our distribution network and the services we provide the gateway to the American household.™ As our role evolves and changes in the twenty-first century, our greatest strength lies in our ability to build on that connection. We want to be the carrier of choice for merchandise purchased on the Internet and the inevitable returns that result. That's a role that makes sense for us. It's what we do.

the household

California's U.S. Senator Dianne Feinstein takes a moment with her mail every day. Here Feinstein, the U.S. Senate author of the Breast Cancer Research Stamp, recognizes the Postal Service's support of breast cancer research.

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a relationship

built on trust

Kmart Corporation sends over a half billion pieces of direct mail a year. Floyd Hall, chairman, president and chief executive officer of Kmart, calls the Postal Service the company's direct mail partner.

The U.S. Mail is perhaps the most visible and personal of all federal services. Most of us look forward to getting our mail each day. Magazines, newspapers and catalogs. Invitations, notes, greeting cards and postcards. Public notices, bills, coupons and special offers. This is information we need and we care about.

People know they can trust the U.S. Mail. That when they hand over that letter or package to the Postal Service, it will arrive unopened. It's our responsibility to guard the security and privacy of the U.S. Mail into the twenty-first century, and to assure the endurance of a delivery system that touches every American.

1999 in review

e-Commerce, e-Parcels, e-Priority

Major Internet shopping sites such as Amazon.com and Eddie Bauer were featured in the "What's Your e-Priority?" campaign, which involved broadcast, print and Internet media.

The Internet is transforming American commerce and, already, the U.S. Postal Service is playing a role in that transformation. Online sales are expected to grow from $18 billion in 1999 to $33 billion in the year 2000. An estimated 55 million Internet users currently make purchases online. These heavy Internet sales volumes mean a dramatic rise in parcel shipments and returns. The Postal Service, with a nationwide delivery network that reaches every household in America, is ideally suited to serve this growing market.

It's already happening. During the 1998 holiday season, about one-third of America's online purchases were delivered by the Postal Service. Given that only 2% of online buyers want overnight delivery, Priority Mail two- and three-day service is a perfect fit. In August 1999, the Postal Service launched "What's Your e-Priority?"—a national advertising campaign positioning the Postal Service as the preferred shipper from the Internet to residential consumers. The Postal Service also created a dedicated website (USPSPriorityMail.com) to facilitate Postal Service deliveries and returns. And in November 1999, the Postal Service launched Returns@ease, a set of merchandise return options that makes returning items bought online easier for shoppers and participating retailers. It all adds up to better service for American shoppers.

uspsdirectmail.com

The Postal Service launched a new website in March 1999 to help businesses enhance their sales and marketing results through direct mail. A free service targeted to small and medium-sized businesses, the site, at www.uspsdirectmail.com, features a treasure trove of interactive and instructional information for direct mailers. The site is averaging 5,000 visitors each week who stay an average of 10 to 11 minutes. And 65% of the visitors are downloading or requesting a fulfillment kit. Just one more way that the Postal Service is supporting the needs of American business.

Digital Postage

In August 1999, the Postal Service introduced PC Postage™. The new product category was launched following the announcement of nationwide availability of digital postage, postage purchased and printed using personal computers and the Internet. PC Postage products, approved by the Postal Service for development and distribution by commercial vendors, produce an Information Based Indicia (IBI), a digitally encoded two-dimensional barcode that postal customers can print directly onto envelopes or address labels. Postage can be paid through electronic funds transfer or by credit card, and either downloaded to a secure accounting device attached to the customer's PC or stored on a vendor's secure Internet server. When the customer prints postage, the dollar amount is deducted from a prepaid account. All of which provides greater customer convenience—access to postage 24 hours a day, seven days a week from the convenience of homes and offices.

History Riding the Rails

Everybody knows about the Pony Express. But did you know that the Postal Service helped develop and subsidize every new mode of transportation in this country? From highways to railroads to airplanes, the Postal Service played an integral role in the evolution of the nation's infrastructure as it searched for better, more economical ways to deliver the mail. To commemorate and illustrate its role in our nation's history, the Postal Service is riding the rails with a unique millennium experience. Celebrate The Century Express, a specially outfitted four-car Amtrak train, began an 18-month, educational tour in March which will take it through 42 states and 150 cities by the fall of 2000. More than 150,000 people, including thousands of school children, toured this traveling museum in 1999. The train consists of an Amtrak P42 Genesis series diesel locomotive, an exhibit car, a restored Railway Post Office car, an historic railroad business car and a baggage car. Within each car are colorful images of U.S. postage stamps and multimedia educational exhibits. The train is part of a Postal Service tribute to the millennium called Celebrate The Century. The tribute also includes a series of 150 Celebrate The Century commemorative stamps and a cross-curricular educational program. Both recognize some of the most memorable and significant people, places, events and trends of the twentieth century.


UNITED STATES
POSTAL SERVICE

Winning

In July 1999, Lance Armstrong led the nine-member USPS Pro Cycling team in professional cycling's most difficult competition. Armstrong's victory in the 23-day, 2,300-mile Tour de France was a coup not only for the athlete who survived cancer, but for the U.S. Postal Service as well. The win placed Armstrong on the front page of major newspapers across America and the world. And in every photograph of him wearing that coveted yellow jersey was the Postal Service logo. Now in its fourth year, Postal Service sponsorship of the U.S. Pro Cycling team is designed to build brand awareness. In a competitive environment, it's about making people feel good about the organization and winning new business. As reported following the race in a *Chicago Sun-Times* article entitled "Pedaling a New Image": " . . the Postal Service got incalculable hits of free advertisement with Armstrong's win . . . But perhaps most important, Armstrong's victory connected the notion of winning with the mail service."

Employees of the Springfield, MA area also know that teamwork is critical for success. Working together they became postal year-end champions for the best performance in delivery and overall customer service. Springfield's team achieved a 96% in both year-end local on-time delivery and customer satisfaction.

Postal Service employees pictured (in alphabetical order): Sue Blackburn (rural carrier), Carolanne Campbell (rural carrier), Karlynn B. Carlson (motor vehicle operator), Debbie Chin (clerk/stenographer), Margo Coy (window clerk), Ted Daniels (associate supervisor), Carol Ann Diotalevi (secretary), Denise Frisby (mailhandler), Henry C. (Hank) Lanou (mailhandler), Paul Mercier (tractor trailer operator), Flossie Paluszek (postmaster), Gloria B. Pires (technician), Brian D. Rheault (carrier), Jacqueline M. Sevila (window clerk), Jan M. Skaza (mailhandler), Barbara G. Staiti (clerk), Robert B. Stein (window clerk) and Joe Wlodyka (area maintenance).

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Automating

Automation is revolutionizing mail processing operations as the Postal Service continues to invest in technology infrastructure to reduce costs, improve service and increase operating efficiencies. Consider this: during the 1998 holiday mailing season, 50% of all handwritten card and letter addresses were "read" not by human eyes but by high speed sorting machines, a process that resulted in labor savings of $31 million. In June 1999, a new contract was awarded for software and hardware that will enable high-speed mail sorting equipment to read up to 80% of handwritten addresses by the year 2001, further speeding the mail sorting process and reducing labor costs. Overall, to date, upgrades to these Remote Computer Readers (RCRs) have resulted in significant savings to the Postal Service, including a reduction of 12 million work hours annually and cumulative labor savings of more than $208 million. In addition, the Postal Service announced plans in 1999 to close 15 of its 55 Remote Encoding Centers by September 2000, because computers are now successfully reading such a high percentage of handwritten addresses.

What's next? More robots. Funding continued in 1999 to support the ultimate Postal Service goal of a fully automated mail processing plant. Robots will be sorting and loading more containers of mail for transportation with installation in 2000 of 100 Robotic Containerization Systems (RCSs) purchased this year. While this number represents only a small portion of the total number of RCSs planned for the future, the 100 systems approved in 1999 will double the number of robots deployed.

The first fully automated flat sorting machine (AFSM 100) for processing periodicals and oversized envelopes was installed in Baltimore in 1999. A video encoding feature, similar to that used for letters, "reads" addresses the computer cannot decipher. Another 175 AFSM 100s will be installed in 2000.

The Robotic Containerization System automatically sorts and loads trays of mail to containers or pallets for transportation, resulting in increased productivity. Another 100 loading robots were purchased in 1999 for installation in 2000.

Green machines

The U.S. Postal Service has become a leader in the use of alternative fuel vehicles (AFVs), including those that run on natural gas, electricity and grain-based fuels. In 1999, 11,275 flexible-fuel vehicles (FFVs) were approved for purchase. These operate on ethanol fuel, unleaded gasoline or some combination of the two, and are up to 75% cleaner than the delivery vehicles they are replacing. With the delivery of these vehicles and the 10,000 purchased in late 1998, the Postal Service will have the largest FFV vehicle fleet in the nation.

In addition, the Postal Service is testing electric vehicles and, in August 1999, the Board of Governors approved the purchase of 500 electric vehicles contingent upon the Postal Service obtaining additional funding from other public and private sources. The purchase marks the largest acquisition ever of zero-emissions vehicles.

Harbor City, CA in September became the first post office in the nation to have its entire gasoline-powered fleet replaced with zero-emission electric vehicles. Use of electric vehicles for mail delivery is ideal in metropolitan areas where city carriers typically drive 10 to 20 miles a day, well within the vehicle's 80- to 90-mile range.

Stamps can raise awareness—and funds—for worthwhile causes. Shown here: a ceremony commemorating $8.6 million raised for breast cancer research.

Raising awareness, raising money

Postal customers across the country continued to purchase Breast Cancer Research stamps in 1999. These sales contributed to more than $8.6 million raised for research since the nation's first "semi-postal" stamp was issued in July 1998. An additional 80 million stamps were printed in 1999 to ensure stamp supply availability until sales end in July 2000. The stamp costs 40 cents and is valid for First-Class letter postage. Net proceeds above the cost of postage are given for research to the National Institutes of Health and the Medical Research Program of the Department of Defense, recipients identified in 1997 legislation. Throughout 1999, postal employees joined local community organizations in special promotions to build social awareness of the disease and encourage purchase of the stamps to fund research. Breast cancer is considered the most commonly diagnosed cancer among women. The success of the semipostal stamp speaks to the Postal Service's unique connection to people around the nation and its ability to reach people everywhere.

More than 1,500 postal employees participated in the South Carolina First Ladies' Walk for Life, contributing more than $23,000 in donations for breast cancer research.

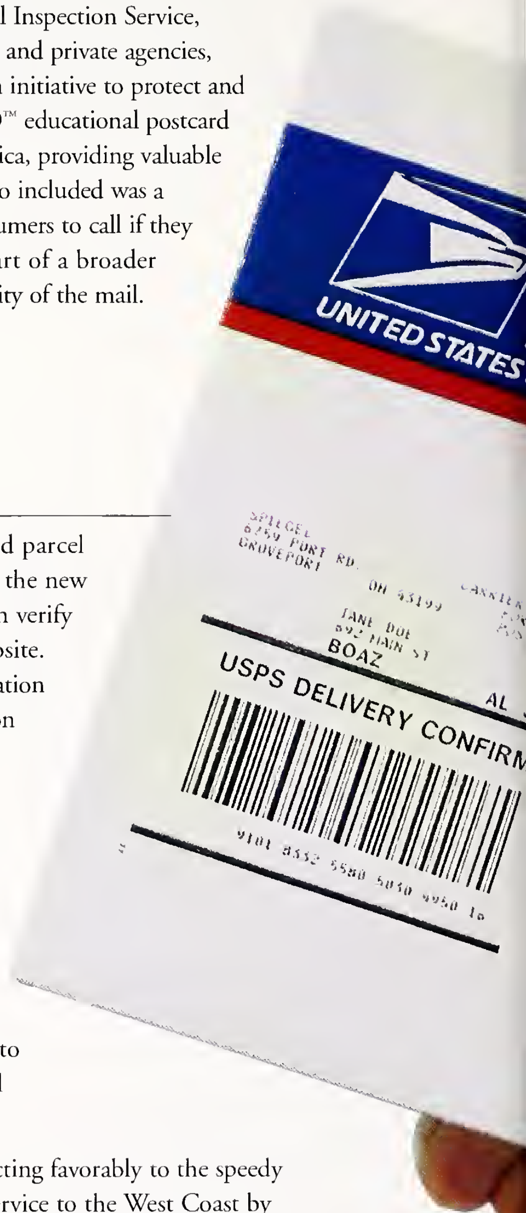
(L to R) Inspectors Jack Cowen, Tyrone Gillins and Linda Jensen.

Secure, protected, safe

When the Louis Harris organization conducted a poll asking Americans to rate the security of various communication channels, including phones, faxes, email, regular mail and the Internet, the U.S. Mail came out on top. Another survey found that 80% of Internet users consider regular mail more secure than email.

The Postal Inspection Service is the branch of the U.S. Postal Service that is responsible for protecting the privacy and sanctity of the U.S. Mail. That responsibility extends beyond ensuring that mail is not tampered with, to protecting consumers from crimes such as mail fraud. The Postal Inspection Service is engaged in detecting and preventing all kinds of fraud, including foreign lotteries and identity theft, one of the fastest growing types of fraud in the country.

As part of this effort, in 1999, the Postal Inspection Service, in partnership with leading government and private agencies, launched an ambitious fraud prevention initiative to protect and educate consumers. A KNOW FRAUD™ educational postcard was mailed to every household in America, providing valuable telemarketing fraud prevention tips. Also included was a website and a toll-free number for consumers to call if they suspect telemarketing fraud. It's all part of a broader initiative to protect the safety and security of the mail.



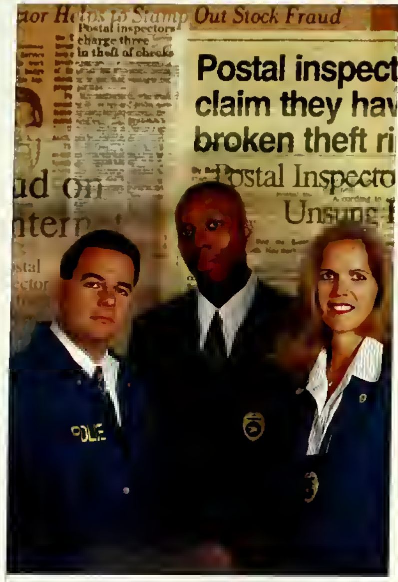
Delivery confirmed

In 1999, the Postal Service added Delivery Confirmation™ service to Priority Mail® and parcel shipments. More than 300,000 handheld scanners were deployed nationwide to support the new service, which gives customers easy access to verify delivery of their parcels. Customers can verify date and time of delivery via a toll-free number or by logging onto the Postal Service website. They also have the option to receive all their information in a daily file. Delivery Confirmation service became available at post offices nationwide in March. By year end, over one million shipments per week included Delivery Confirmation service.

An added value like Delivery Confirmation service, coupled with the high level of customer service provided by the Postal Service, can make all the difference to a big commercial customer like Distribution Fulfillment Services, Inc. (DFS). DFS, a wholly owned subsidiary of Spiegel, Inc., handles shipping for Spiegel Catalog and Eddie Bauer. In April 1999, DFS began using Priority Mail with Delivery Confirmation for all three pound and under packages shipped for Spiegel Catalog and Eddie Bauer. DFS ships an average of 30,000 packages a day via Priority Mail, representing about 50% of all its shipments. The Postal Service adds value by sending tractor trailers daily to DFS for package pickup, and providing the trademark red, white and blue Priority Mail packaging for shipments.

According to Sandra Crotteau, vice president of transportation for DFS, customers are reacting favorably to the speedy delivery and Priority Mail packaging. "With Priority Mail, we've improved our delivery service to the West Coast by two days and picked up Saturday delivery. About 98% of the packages are arriving within three days," says Crotteau. "Delivery Confirmation added a critical customer-service component that we required, leading us to choose USPS as a delivery partner. The Postal Service has taken on a strong customer service approach. They've been very responsive to our needs and have been strategic business partners." All of which adds up to good customer service all around.

Sandra Crotteau, vice president of transportation for Distribution Fulfillment Services, Inc. (DFS) and Bill Terry, outbound transportation manager for DFS.



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As part of this effort, in 1999, the Postal Inspection Service, in partnership with leading government and private agencies, launched an ambirious fraud prevention initiative to protect and educate consumers. A KNOW FRAUD™ educational postcard was mailed to every household in America, providing valuable telemarketing fraud prevention tips. Also included was a website and a toll-free number for consumers to call if they suspect telemarketing fraud. It's all part of a broader initiative to protect the safety and security of the mail.

Delivery confirmed

In 1999, the Postal Service added Delivery Confirmation™ service to Priority Mail® and parcel shipments. More than 300,000 handheld scanners were deployed nationwide to support the new service, which gives customers easy access to verify delivery of their parcels. Customers can verify date and time of delivery via a toll-free number or by logging onto the Postal Service website. They also have the oprion to receive all their information in a daily file. Delivery Confirmation service became available at post offices narionwide in March. By year end, over one million shipmenrs per week included Delivery Confirmation service.

An added value like Delivery Confirmarion service, coupled with rhe high level of customer service provided by the Postal Service, can make all the difference to a big commercial customer like Distribution Fulfillmenr Services, Inc. (DFS). DFS, a wholly owned subsidiary of Spiegel, Inc., handles shipping for Spiegel Catalog and Eddie Bauer. In April 1999, DFS began using Priority Mail with Delivery Confirmation for all three pound and under packages shipped for Spiegel Catalog and Eddie Bauer. DFS ships an average of 30,000 packages a day via Priority Mail, representing about 50% of all its shipments. The Postal Service adds value by sending tractor trailers daily to DFS for package pickup, and providing the trademark red, white and blue Priority Mail packaging for shipments.

According to Sandra Crotteau, vice president of transportation for DFS, customers are reacting favorably ro the speedy delivery and Priority Mail packaging. "With Priority Mail, we've improved our delivery service ro the West Coast by two days and picked up Saturday delivery. About 98% of the packages are arriving within three days," says Crorteau. "Delivery Confirmation added a critical customer-service componenr thar we required, leading us to choose USPS as a delivery partner. The Postal Service has taken on a strong customer service approach. They've been very responsive ro our needs and have been strategic business parrners." All of which adds up to good customer service all around.

Sandra Crotteau, vice president of transportation for Distribution Fulfillment Services, Inc. (DFS) and Bill Terry, outbound transportation manager for DFS.

It starts with a stamp

Conception Stamps are born from proposals made by Americans from all over the country. ■ A Citizens' Stamp Advisory Committee reviews approximately 50,000 proposals a year and makes subject recommendations to the Postmaster General. ■ Chosen stamp subjects are given to artists selected by contract art directors. ■ Stamp design is a miniature art form requiring exacting skills. One-fifth of the artists selected each year are first-time stamp designers. ■ In 1999, the Postal Service issued 64 stamps.

Printing Stamps are printed by the Bureau of Engraving and Printing and four private printers. ■ More than 37 billion stamps were printed in 1999 and 93% were self adhesive. ■ Today's technology allows for greater detail in stamp design and printing clarity.

Purchase Stamps can be purchased at 38,000 postal retail outlets, as well as through the Internet and the mail, by phone or through more than 21,000 private retail outlets and 15,000 ATMs offering Stamps on Consignment. ■ Every day, on average, seven million people visit U.S. post office retail sites, making the Postal Service the nation's largest retailer and credit/debit card merchant. ■ The website to purchase stamps is www.stampsonline.com. ■ For Stamps By Phone, call 1-800-STAMP-24.

Collection In 1999, the Postal Service handled more than 200 billion pieces of mail, including 102 billion pieces of First-Class Mail. ■ Postal employees collect mail from home or business mailboxes, post offices and more than 312,000 street mail collection boxes nationwide.

Processing Once it's collected, mail goes to one of 468 processing plants and large post offices around the country to be sorted to its destination. Here the stamp is canceled to verify postage. ■ Fully 93% of letter mail processing is automated or mechanized. ■ About 30,000 letters an hour are "fed" through automated machines that apply or "read" a barcode denoting the ZIP Code. ■ Technology enables automation to read 53% of handwritten addresses. ■ More than 44 million change-of-address requests were handled in 1999.

Transportation The Postal Service transports mail by airplanes and trucks, trains and ships. ■ Commercial airlines carry more than 2.1 billion pounds of mail each year, making the Postal Service their biggest shipper. ■ Most of the mail moves by airplanes or trucks. ■ More than 205,000 vehicles are used to transport and deliver mail. ■ The Postal Service operates the nation's largest alternative-fuel delivery fleet.

Final Sorting Mail is sorted again at a processing plant in its destination area before it's shipped to the delivery post office. Letter mail arrives at the post office sorted by automation to each carrier's route. ■ About 50% of letter mail is already sorted in the order the carrier will deliver it.

Delivery The Postal Service delivers mail six days a week to 133 million delivery addresses, including 20 million post office boxes. Express Mail is delivered on Sundays and holidays as well. ■ The average carrier makes 500 delivery stops and delivers about 2,300 pieces of mail a day. ■ Each household receives a weekly average of 24 pieces of mail.

The Governors of the Postal Service

The governors (left to right): Robert F. Rider, Ned R. McWherter, Ernesta Ballard, S. David Fineman, LeGree S. Daniels, Sam Winters, Tirso del Junco and Einar V. Dyhrkopp.

The Postal Service Board of Governors is comparable to the board of directors of a publicly owned corporation. The Board meets monthly in Washington, D.C., or other cities across the United States.

Nine governors are appointed by the President with the advice and consent of the Senate. They, in turn, select the Postmaster General, and along with the Postmaster General, select the Deputy Postmaster General, both of whom also serve on the Board.

The Board directs and controls expenditures of the Postal Service, reviews its practices, joins in long-range planning and sets policies on all postal matters. Many of these activities are coordinated through the various committees of the Board.

Einar V. Dyhrkopp, Chairman
Appointed November 1993, term expires December 2001. President of Tecumseh International Corp.; Regional Advisory Board member of the Southern Illinois University Public Policy Institute.

Robert F. Rider, Vice Chairman
Appointed May 1995, term expires December 2004. Capital Projects and Strategic Planning Committees, and Postal Museum Advisory Commission. Chairman and CEO of O.A. Newton & Son Co.; Trustee of the University of Delaware and Director of several companies and institutions.

Ernesta Ballard
Appointed November 1997, term expires December 2005. Compensation and Strategic Planning Committees. President of Ballard & Associates. Formed Ballard & Associates in 1995, advising clients on complex management problems which require long-range planning. Board member of Ketchikan General Hospital, LifeCenter Northwest and Alaska Forest Association.

LeGree S. Daniels
Appointed August 1990, and reappointed November 1999, term expires December 2007. Audit and Compensation Committees. Former U.S. Department of Education Assistant Secretary for Civil Rights; Member of Penn State University Board of Advisors, Harrisburg Campus.

Tirso del Junco, M.D.
Appointed July 1988 and reappointed December 1991, term expires December 2000. Compensation and Strategic Planning Committees. Surgeon and entrepreneur; Past Chairman of Board of Regents, University of California.

S. David Fineman
Appointed May 1995, term expires December 2003. Capital Projects and Compensation Committees. President, Fineman & Bach, P.C.; member of the Industry Policy Advisory Committee, advising the U.S. Secretary of Commerce and U.S. Trade Representative on international trade policy issues.

Ned R. McWherter
Appointed October 1995, term expires December 2002. Audit and Capital Projects Committees. Former Governor of the State of Tennessee (1987-1995); Officer and/or Director of several companies and institutions.

Sam Winters
Appointed November 1991, term expires December 1999. Audit Committee. Member of Clark, Thomas & Winters law firm; past Chairman of the American Bar Association's section on Utilities, Communications and Transportation.

Bert Mackie's one-year extension expired December 8, 1998.
John F. Walsh was appointed in November 1999. His term expires December 2006.

Also members of the Board of Governors:

William J. Henderson
Appointed 71st Postmaster General of the United States in May 1998. Career Postal Service employee who has served in senior management positions including Chief Operating Officer, Chief Marketing Officer and Vice President of Employee Relations.

Deputy Postmaster General – Vacant since July 1999.

Michael S. Coughlin, a career Postal Service employee who served in senior management positions in Finance, Operations and Human Resources was appointed Deputy Postmaster General in January 1987 and served until his retirement from the Postal Service on July 2, 1999.

The Officers of the Postal Service

The 1999 senior management team (left to right): Clarence E. Lewis, Jr., Mary S. Elcano, M. Richard Porras, Norman E. Lorentz, John E. Potter, Deborah K. Willhite and Allen R. Kane.

William J. Henderson
Postmaster General,
Chief Executive Officer

(Vacant)
Deputy Postmaster General

Clarence E. Lewis, Jr.
Chief Operating Officer
& Executive Vice President

Mary S. Elcano
General Counsel & Executive
Vice President, Human Resources

Allen R. Kane
Senior Vice President
& Chief Marketing Officer

Norman E. Lorentz
Senior Vice President
& Chief Technology Officer

M. Richard Porras
Chief Financial Officer
& Executive Vice President

John E. Potter
Senior Vice President, Operations

Gail G. Sonnenberg
Senior Vice President, Sales

Deborah K. Willhite
Senior Vice President,
Government Relations
& Public Policy

(Vacant)
Senior Vice President,
Corporate/Business Development

Nicholas F. Barranca
Vice President,
Operations Planning

Anita J. Bizzotto
Vice President,
Pricing & Product Design

Sylvester Black
Vice President,
Network Operations Management

William J. Brown
Vice President, Retail Operations

James A. Cohen
Judicial Officer

Robert T. Davis
Vice President,
Area Operations (Southeast)

Patrick R. Donahoe
Vice President,
Area Operations (Allegheny)

William J. Dowling
Vice President, Engineering

Jesse Durazo
Vice President,
Area Operations (Pacific)

Patricia M. Gibert
Vice President, Retail Consumer
& Small Business

Azeezaly S. Jaffer
Vice President, Public Affairs
& Communications

John F. Kelly
President,
Expedited/Package Services

Stephen M. Kearney
Vice President, Treasurer
& ePayments

Robert Krause
Vice President, eCommerce

George L. Lopez
Vice President,
Area Operations (Southwest)

Yvonne D. Maguire
Vice President,
Employee Resource Management

Suzanne Medvidovich
Vice President,
Area Operations (Midwest)

Henry A. Pankey
Vice President,
Area Operations (Mid-Atlantic)

Don W. Peterson
Vice President, Quality

John A. Rapp
Vice President, Delivery

Robert A. F. Reisner
Vice President, Strategic Planning

Francia G. Smith
Vice President
& Consumer Advocate

David Solomon
Vice President, Area Operations
(New York Metro)

Jon Steele
Vice President,
Area Operations (Northeast)

A. Keith Strange
Vice President,
Purchasing & Materials

Rudolph K. Umscheid
Vice President, Facilities

Anthony Vegliante
Vice President, Labor Relations

Craig G. Wade
Vice President,
Area Operations (Western)

James P. Wade
Vice President,
International Business

John H. Ward
Vice President, Finance, Controller

John R. Wargo
Vice President,
Strategic Marketing

Kenneth C. Weaver
Chief Postal Inspector

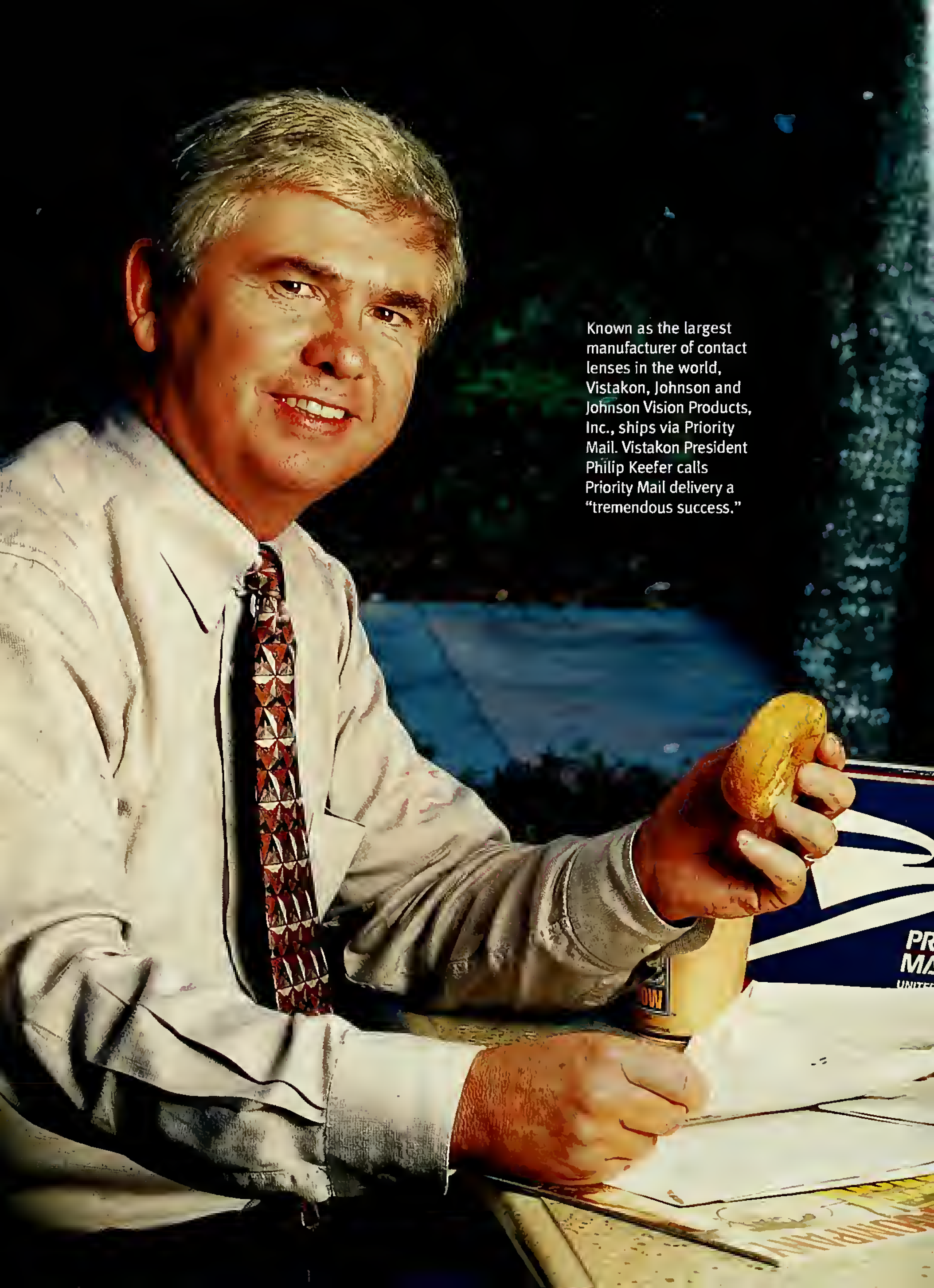
J. T. Weeker
Vice President,
Area Operations (Great Lakes)

Richard D. Weirich
Vice President,
Information Technologies

(Vacant)
Vice President,
Core Business Marketing

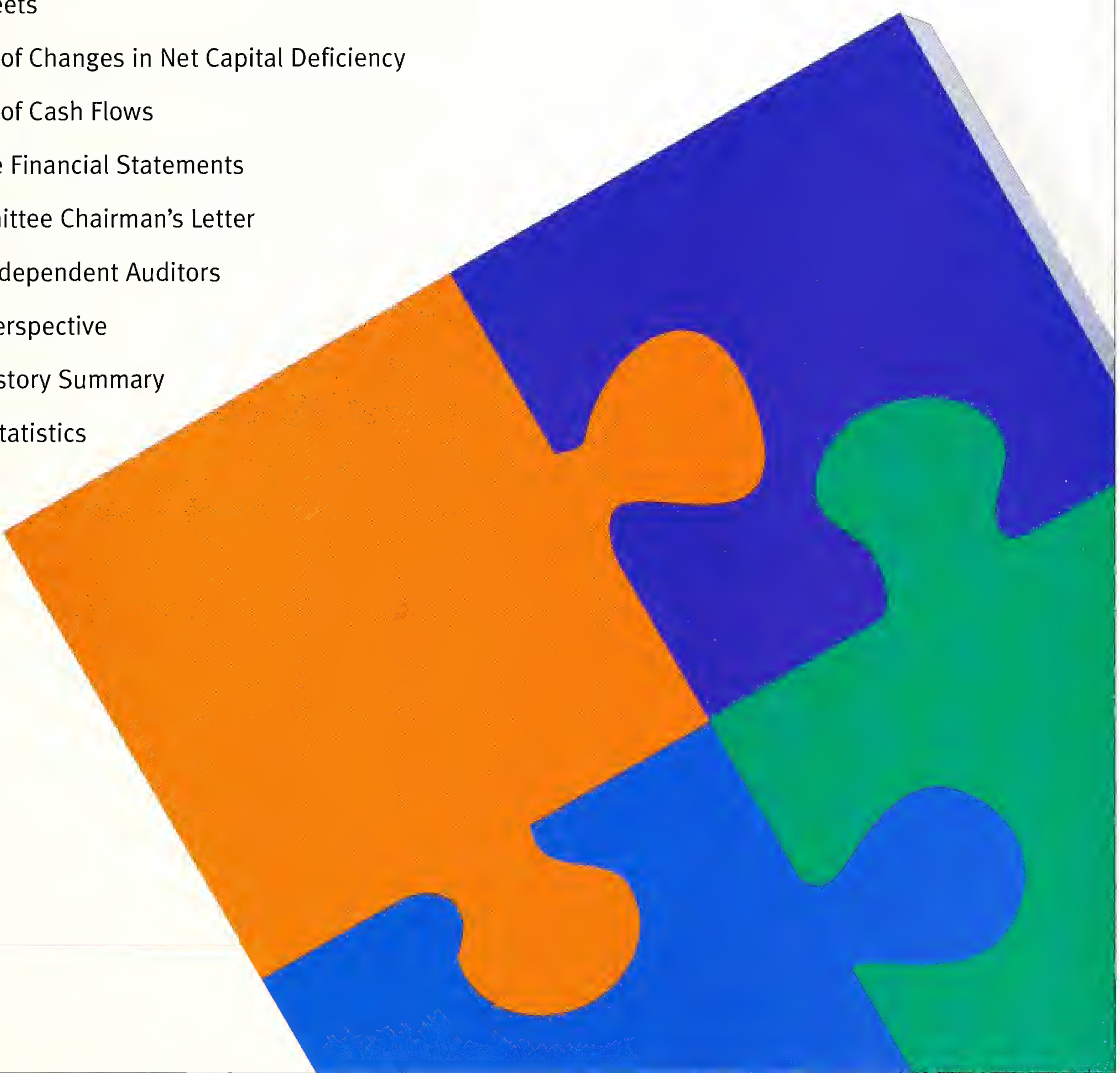
(Vacant)
Vice President,
Diversity Development

Inspector General
Karla W. Corcoran



Known as the largest manufacturer of contact lenses in the world, Vistakon, Johnson and Johnson Vision Products, Inc., ships via Priority Mail. Vistakon President Philip Keefer calls Priority Mail delivery a "tremendous success."

Financial Section Contents



Financial Q&A with the CFO

Some frequently asked financial questions about the Postal Service answered by M. Richard Porras, Chief Financial Officer, Executive Vice President.

What's the biggest challenge you've faced during your first full year as Chief Financial Officer?

This year, management faced a huge challenge to meet the performance goals we submitted to Congress. These goals, set in 1997, included our 1999 net income goal of $200 million or one tenth of one cent per piece of mail, a pretty slim margin. By comparison, competitors can earn margins exceeding fifty cents per piece. Since we can't directly increase our revenues in the short term, we are cost driven and must watch our expenses very closely. Even minor changes such as a one-cent increase in the price of a gallon of gas increases our transportation costs over $5 million. Thus, each year our plan includes measures to control costs.

Our financial challenge appeared early in 1999 when we saw two trends: our revenues were falling short of what we projected and expenses were higher. There was only one thing to do: cut costs even further. We determined that to make our goal of $200 million in net income we had to cut $400 million in expenses. Our management team responded quickly and decisively, setting in motion a plan called the Management Challenge. Through this team effort, we ended the year exceeding our goal by $163 million. However, the growth of the national economy continues to put pressure on our financial performance, so that eventually our present rates won't produce enough revenues to cover our costs.

So do you see an increase in postal rates anytime soon?

Yes, rates will increase, but not before 2001. As our Management Challenge demonstrates, we do everything we can to manage our costs so as to not increase prices. But there are some pressures on our costs over which we have no control. First, we have a universal service mandate to deliver mail to every household and business, from Alaska to Puerto Rico, from Bangor, Maine to Guam and American Samoa. As the population grows, the number of addresses that we deliver to keeps increasing by more than 1 million every year. This takes more letter carriers, more mail handlers, more trucks, more processing equipment and more buildings. Just this year, we delivered an additional 5 billion pieces of mail. Second, like any business, inflation drives our costs. Add that all up and you can see that we will need additional revenue to cover our increased costs. Also, our last rate increase was less than 3%, which was less than the rate of inflation. In addition, the increase went into effect in January 1999 and not in the summer of 1998 as planned, producing an $800 million dividend for our customers but a reduction in income for us. While we are constantly improving our efficiency to help keep costs down, we simply cannot cover all of these additional costs without some increase in our rates.

Why doesn't the Postal Service just continue to cut expenses instead of raising rates?

We have cut expenses, and we are continuing to do so. We're continuing to invest heavily in technology to automate our systems and reduce our expenses—permanently. We're changing our lifestyle: the way we do business, and we're doing it more efficiently. Even with these changes, we expect our expenses to increase over 4% next year, with about 90% of that increase coming from increases in personnel compensation. So just to meet our goal of $100 million in net income next year, we will reduce selected programs and initiatives by over $500 million and decrease our work hours by 16 million. We'll do this even though mail volume is projected to grow by almost six billion pieces. We work constantly to curb expenses while maintaining and improving the services we provide our customers.

Has the Postal Service's investment in automation produced any savings?

Our investments in automation pay continuing dividends that permanently reduce expenses while improving service. For example, in 1997 our Remote Computer Readers could read only 2% of all handwritten mail; today, our computers can read 56%. And by 2001 our computers will read almost 80% of all handwritten mail. We've saved over $208 million in labor costs so far, and we'll save even more as we install even better readers. We're deploying a whole range of new automation equipment that will move the mail more efficiently and more

economically. Between 1987 and 1999, we invested almost $5 billion on letter mail automation which produced over $15 billion in cost avoidance.

What role does the Economic Value Added (EVA) program play in the Postal Service's operations?

Our EVA variable pay program for management and non-bargaining employees focuses on actual results, tying pay to job performance. It helps drive a transformation of the whole organization by encouraging our strongest asset, our employees, to work smarter, better, more creatively, and more efficiently. It is considered a best business practice in the boardrooms of many major companies. In the short time we have had our EVA program, we have seen dramatic changes in employee behavior. It creates a sense of ownership in employees so we all manage our business more efficiently, grow revenue, control costs, and serve our customers better by developing the services they want.

New communications technology, such as e-mail, is bound to affect the Postal Service's traditional classes of mail, especially First-Class Mail. How will you deal with that?

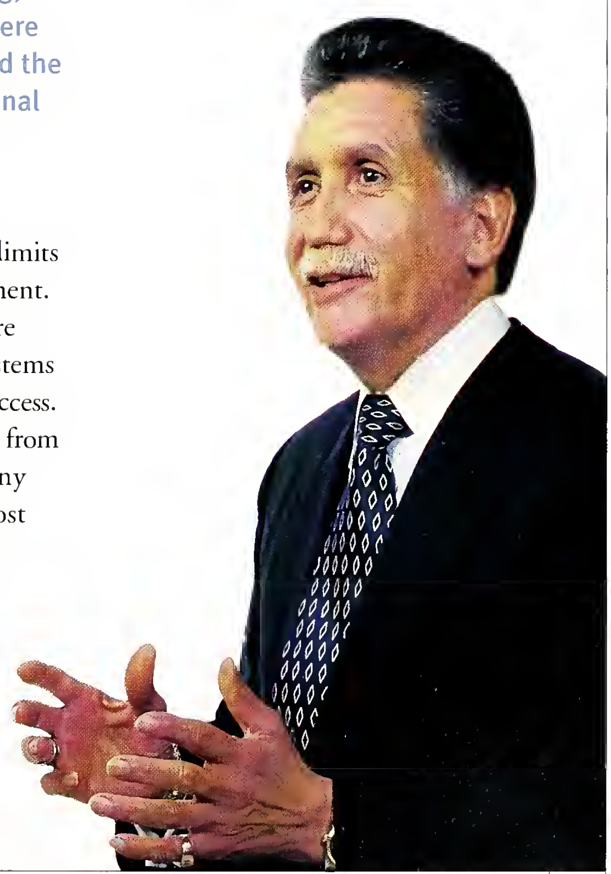
Our mandate to provide the American people with universal communications service does not alter with technological advances. For example, our strategy for maintaining the strengths of First-Class Mail is market-driven and customer-oriented: we will serve the needs of our customers by ever-improving our quality of service and by minimizing price increases. As we have from our inception, the Postal Service continues to evolve with technology and with the new demands and the new possibilities of the marketplace. In 1999, we drew on electronic communications technology to introduce several new products that better serve our customers' needs: PC Postage, Delivery Confirmation, Priority Mail Global Guaranteed and, Parcel Select. We also recognize electronic communications as a great opportunity for our own growth. We aim to be the carrier of choice for electronic commerce, delivering the parcels consumers order over the Internet—and delivering any return merchandise back to the vendors. The Postal Service views electronic communications in the same way we have always viewed technological change: as an irresistible opportunity to enhance our mandated service to the public and to help this nation grow.

International postal standards are set by the Universal Postal Union, the UPU. As Chairman of its Postal Development Action Group, you play a leading role in that organization and participated in the recent UPU Congress in Beijing, China. What global concerns were addressed and what actions did the UPU take to improve international postal service?

In our expanding global market, national borders no longer set the limits of economic growth and development. In the industrialized world, we are accustomed to advanced postal systems that have long provided universal access. This level of service is not available from the postal administrations of many developing nations and is the most pressing issue before the UPU.

Now, to ensure that global growth and development will continue, it is essential that all nations have strong, reliable postal systems. Each must have a postal administration capable of providing universal service and access to goods and information.

The Postal Development Action Group acts directly on this issue. It assists developing nations to secure financing from the World Bank and other private financing sources to build strong and effective postal administrations. This financing issue is of such importance that, at the Beijing Congress, the industrialized nations agreed to increase their terminal dues by 7.5% to finance a Quality of Service Fund. This fund will help support the establishment of postal administrations in the developing nations, and we are proud to have been involved in its creation.



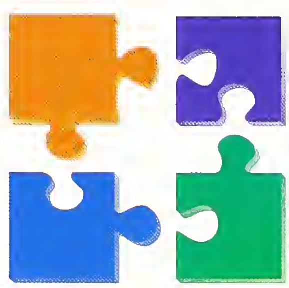
M. Richard Porras
Chief Financial Officer,
Executive Vice President

Management Discussion and Analysis

Overview

In order to understand better our Management Discussion and Analysis (MD&A), you should remember that by law we provide mail service to the public, offering a variety of classes of mail services without discrimination among our customers, whether they are large corporations or individual families. This means that within each class of mail we must charge all customers the same price for the levels of service we provide. We must also offer universal service at a fair price. However, our competitors are not subject to the same set of regulatory restrictions and government mandates that we must obey. Indeed, we can change our rates to meet market conditions only after we go through a lengthy and complicated approval process, a process that includes the opportunity for our competitors to do what they can to drive up our rates. Thus, while our competitors are free to choose the most profitable markets and customers and adjust their prices whenever they see fit, we are bound to serve everyone in every market and seek approval for any price increase or decrease.

This year, in addition to again writing our MD&A in plain English, we are doing two things to make it simpler to understand. First, you will notice that there are pieces of a puzzle throughout our MD&A. Each of these indicates an important concept about our financial condition that you need to understand. There are four of these puzzle pieces. On pages 46 and 47 we put these pieces together so you can understand our complete financial condition. Second, we are for the first time presenting our MD&A in an integrated format. Our integrated MD&A has four components:



Operations, Capital, Financing and Other Issues. In the Operations section, we discuss the sources and amounts of our income, our productivity and the expenses we incur in running our operations. The net income we get from our operations is an important part of the cash flow that we need to finance our capital investments. In the Capital section, we discuss the investments we make to control our costs and to generate the new revenues we need for our operations. In our Financing section, we discuss how we manage our cash flow and provide the additional funds we need for those capital investments we cannot fund from our operating cash flow. Finally, in our Other Issues section, we discuss proposed postal legislation, the effects of classification and rate changes, environmental matters, Year 2000 preparations, inflation, and our research and development efforts.

Outlook

We see mail delivery as a mature business that grows at about the same rate the economy as a whole grows. Over the next few years, we expect total mail volume to grow approximately 2% a year. Beginning in Fiscal Year 2003 however, we expect electronic alternatives to traditional mail to seriously affect the volume of both First-Class Mail and Standard Mail (A). Many factors will affect this growth, including new technologies and the state of the economy.

We will ensure our future health by keeping our costs down and our prices competitive while improving our service. When the real price (the price adjusted for inflation) for mail declines, mail volume increases, so we need to do everything we can to control costs. We have a program to reward managers who control costs and generate new revenue, and our capital investment program makes large investments in automating our operations even further, increasing our productivity, making us more efficient and improving service.

Global Bargain

Comparative value of a First-Class stamp as of September 30, 1999

	Stamp Price	Mail Volume (billions)	Geographic size (sq. miles)	Population (millions)	Population Density	Number of Retail Units	Employees
Australia	**0.29**	4.5	2,967,893	18,613,087	6	4,425	34,961
Canada	**0.31**	9.6	3,849,674	30,675,398	8	18,600	63,900
Mexico	**0.32**	0.9	756,066	98,552,776	130	9,432	26,294
United States	**0.33**	201.6	3,675,031	270,311,758	74	38,169	905,766
Great Britain	**0.43**	18.2	94,525	58,970,119	624	15,500	169,000
Italy	**0.44**	6.4	116,305	56,782,748	488	13,967	181,262
France	**0.49**	24.3	211,208	58,804,944	278	17,038	287,348
Switzerland	**0.60**	4.4	15,942	7,260,357	455	3,600	41,475
Germany	**0.60**	23.4	137,803	82,079,454	596	14,500	260,520
Japan	**0.75**	25.8	145,882	125,931,533	863	24,680	146,407

Source: www.upu.int

We carry more mail to more people over a larger geographic area than any other country.

Between 1973 and 1998, the adult (all those over 21 years old) population in the United States grew by about 42%. During the same period, mail volume grew by about 120%. Since the U.S. population is expected to grow by about 0.9% per year through the next decade, we believe that in the near term we will see overall modest growth in our markets.

The historic growth of mail volume was due to the robust health of the U.S. economy. The spread of new technology has fueled growth by enabling businesses to operate smarter and better to meet customer needs. With a more sophisticated use of data, businesses are using the mail not only to target customers with customized advertising but also to build and cement lasting customer relationships. Consumption spending has led this growth and the federal government's fiscal and monetary policies have helped keep the expansion balanced and inflation restrained. Current U.S. economic projections indicate a continuation of this steady expansion during the next decade. This prediction is based on an average annual Gross Domestic Product growth of two to three percent through 2008, which should give us a good foundation for steady mail volume growth for at least the next four or five years.

There are some potential threats to this forecast, however. The U.S. trade deficit remains large, unemployment is extremely low, and consumer spending continues to be extremely high. These and other recent economic data indicate that there may be an increase in the inflationary pressures that have remained largely dormant in the economy during the recent expansion.

Besides risks to the economy as a whole, we face a number of business risks. Many of our markets are becoming more competitive as new technologies and new firms make their presence felt. A number of foreign postal administrations have opened offices in the U.S., threatening our outbound international mail. New technology will also continue to put pressure on our advertising, and correspondence and transactions mail volumes. Bills, statements and payments comprise around $15 billion of revenue, and make a large contribution toward institutional costs and net income. The spread of electronic alternatives to the mail will threaten the volume and revenue we have traditionally derived from these pieces. While we do not see a large short-term revenue loss, we believe that increasing use of electronic alternatives will cause First-Class Mail volume to decline beginning in fiscal year 2003. At the same time, the growth rate in Standard Mail (A) is expected to slow. Growth in Priority Mail and parcel delivery may partially offset these losses however, as more consumers shop over the Internet and package volumes increase.

Our discussion in the MD&A represents our best estimate of the trends we know about, the trends we anticipate, and the trends that we think are relevant to our future operations. However, actual results may be different from our estimates.

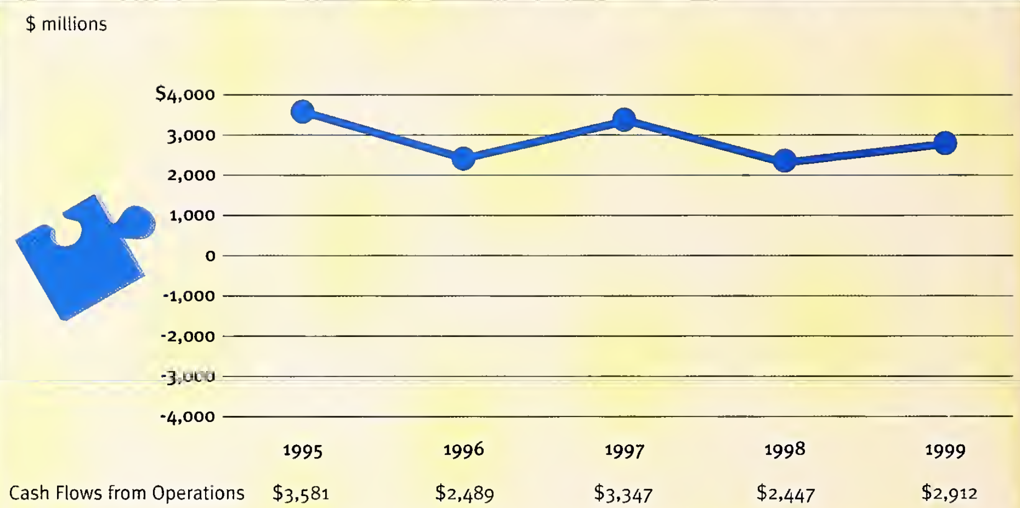
Operations

In this section, we give you the first piece of the puzzle and discuss our revenue and expenses for the year. We discuss in detail what each of the various products we offer contributed to our total revenue and how our revenue for 1999 compared to our revenue in the past two years. We also describe the rather lengthy and complicated process we must go through in order to bring the rates we are allowed to charge into line with the expenses we must pay. In addition to our revenue, we discuss our expenses for 1999 and how these expenses compared to our expenses in 1997 and 1998. For both our revenue and our expenses, we give the best estimate of what we think they will be next year.

In the next chart we show our net cash provided by operations. This is part of our presentation on understanding our operations that is summarized on pages 46 and 47.

A large positive operating cash flow, like we have, is a good sign. For in the long run, operations must be the main source of a business's cash.

The Cash Picture—Net Cash Provided by Operating Activities



Revenue

Operating Revenue

The table below shows that the growth of our operating revenue rose compared to the two previous years. This was primarily a result of the January 10 rate increase. We were expecting steady growth as in prior years plus the effect of the rate increase. The actual growth of 4.4% was less than what we anticipated when we wrote last year's report. Next year we expect continued moderate growth in our operating revenue due to our last rate increase and expected volume growth.

Operating Revenue

Year	Operating Revenue	Increase Over Previous Year	Increase Over Previous Year (%)
1997	$58.2 billion	$1.8 billion	3.2%
1998	$60.1 billion	$1.9 billion	3.2%
1999	$62.7 billion	$2.6 billion	4.4%

Our major sources of revenue are First-Class Mail, Priority Mail and Standard Mail (A) which together make up about 86% of our total revenue for 1999, or approximately the same percentage as 1998 and 1997. Although we expected First-Class Mail revenue to grow modestly in 1999, actual growth exceeded our expectations with an increase of 3.2%. For 2000, we expect First-Class Mail, Priority Mail and Standard Mail (A) will account for almost 90% of the estimated 4% growth in overall revenue we anticipate.

Growth in Revenue

	1997	1998	1999
First-Class Mail	0.8%	1.4%	3.2%
Standard Mail (A)	5.8%	6.4%	5.4%
Priority Mail	16.1%	8.6%	8.3%
Standard Mail (B)	6.8%	7.8%	4.2%
Periodicals Mail	2.7%	0.2%	2.1%

Volume

We expect overall mail volume to grow modestly in 2000. We think that First-Class Mail, Priority Mail, and Standard Mail (A) will continue to be our fastest growing products in 2000. We expect First-Class Mail to continue its moderate growth with Priority and Standard Mail (A) growing somewhat more quickly. For the last two years, International volumes have been affected by economic weakness in Japan and Canada. We expect this to stabilize in 2000.

First-Class Mail

First-Class Mail had volume growth of 1.5%, slightly less than what we had expected. We believe that future volume growth in this category will be affected by the attractive rates offered by Standard Mail (A) for some large mailers who previously used First-Class Mail and by the increasing use of alternative electronic mail systems.

Standard Mail (A)

Standard Mail (A), or advertising mail as it is often called, grew less than we anticipated given the strong economic conditions that prevailed during 1999. Mailers continued to shift mail to the sub-classes of Standard Mail (A) offering the most advantageous work-sharing discounts. For example, within the sub class Regular, volume declined almost 9% for Non-automation Presort compared to 1998, while Automation Presort grew over 16%. The business environment for advertising has become extremely competitive, with many advertisers experimenting with alternative media, such as the Internet.

Priority Mail

Priority Mail is our fastest growing class of mail. However, this volume growth was lower than the 9.9% growth for 1998, and lower than what we had anticipated for 1999. This appears to be the result of the new weight requirements for First-Class Mail in the last rate change. Mail that previously had to be sent Priority now qualifies at the lower First-Class Mail rate.

Standard Mail (B)

In 1999, Standard Mail (B), commonly known as Parcel Post, volume increased 1.9%, which was lower than what we expected. This slowdown in growth appears to be primarily due to the higher than average rate increase for parcel post.

Periodicals Mail

In 1999, Periodicals Mail volume decreased 0.4% compared to 1998, which is slightly better than the volume decrease of 0.9% in 1998 compared to 1997, but less than we anticipated. Our improved flat sorting technology is expanding the availability of low-cost automated piece distribution to a wider variety of periodicals. Additional technological advances will increase the speed and lower the cost of automated flats distribution operations.

International Mail

Rigorous competition and a weak international economy affected international mail volumes in 1999. While overall growth was slight, Global Priority Mail™ grew at a healthy level, with volume increasing almost 19% between 1998 and 1999.

Rate Setting Process

Until 1971, Congress set postage rates by law, with no relationship between the revenue from those rates and the actual cost of operating the postal system. Since 1971, however, the Postal Reorganization Act has required the Postal Service to establish postal rates that cover the costs of operating the postal system. To achieve this alignment of rates with expenses, the Act established a rate-making process that allows rates to be adjusted as necessary.

The rate-making process begins when management projects that current rates will not be adequate to meet our mandate of "covering costs" in the future. The Postal Service, upon concurrence with the Board of Governors, submits a request for a recommended decision on rate and fee changes to the Postal Rate Commission. (Like the Postal Service, the Commission

Fortune Magazine's Global 500

When you think of us as a government agency, you assume we will always be here; when you think of us as a business, you need to alter your expectations. Consider this—

- Of the 100 largest companies at the beginning of the 1900's, only 16 are still in existence.
- Of the original 1956 FORTUNE 500, only 20 of the top 100 are still in the top 100.
- During the 1980's alone, a total of 230 companies—46%—disappeared from the Fortune 500.

Obviously, size does not guarantee continued success. Neither does a government mandate. Any organization this large faces huge difficulties posed by an ever changing world. We have more than 260 million stakeholders, more than any Fortune 500 company. And each stakeholder counts on us to maintain our promise of reliable, low cost, universal mail service. We intend to keep this promise and more. FORTUNE magazine recently published diversity rankings for companies that responded to their survey. While not originally surveyed, we were able to respond to the survey and find out where we would have ranked. Our diversity ranking would put us first within the Fortune 10 and eighth within the companies ranked by Fortune, exemplifying the inclusive way we run our business. Unlike private companies, our sole motivation is to serve the American public, our stakeholders.

Revenue Ranking Global	Revenue Ranking U.S.		Revenues* ($in millions)	Employees* Number	Employees* U.S. Rank In Top 10	Diversity U.S. Rank In Top 10
1	1	General Motors	$ 161,315	594,000	3	5
3	2	Ford Motor	$144,416	345,175	4	3
4	3	Wal-Mart Stores	$139,208	910,000	1	**
8	4	Exxon	$100,697	79,000	10	6
9	5	General Electric	$100,469	293,000	5	**
14	6	IBM	$ 81,667	291,067	6	**
16	7	Citigroup	$ 76,431	170,100	8	2
25	**8**	**United States Postal Service**	**$ 60,072**	**792,041*** **	**2**	**1**
27	9	Philip Morris	$ 57,813	144,000	9	4
29	10	Boeing	$ 56,154	227,000	7	**

** Data used by Fortune was from 1998 Annual Reports.*
*** Not available/ranked*
**** Career emplayees anly. Fartune listed career and nan-career employees.*

is an independent establishment of the executive branch of the government.) As allowed by law, the Board of Governors submits its request accompanied by detailed rate proposals supported by extensive testimony and documentation.

The Commission holds public hearings, during which time such parties as mailers, competitors, and consumer advocate groups are authorized to question the Postal Service's proposals and submit their own testimony and proposals. At the conclusion of the hearings, the Commission sends its recommended decision to the Governors. The Governors may approve, reject, allow under protest, or, under certain limited circumstances, modify the Commission's recommendations.

Although the Postal Reorganization Act requires the Commission to issue its recommended decision within 10 months of the filing of the Postal Service's request, the entire process—starting with preparing the necessary documentation to support the rate proposals and ending with implementing the new rates—takes approximately 16 to 18 months. While this rate-making process has allowed us to bring revenues more in line with costs (when compared with having the rates set by Congress), it offers us only limited flexibility in responding quickly to changes in our costs and in the markets in which we compete.

Contribution

Contribution is the difference between revenue and volume-variable costs. As the term implies, volume-variable costs are those costs that vary directly or indirectly with changes in mail volume. For example, a high percentage of mail processing costs are considered volume-variable costs since changes in mail volume directly affect the number of hours clerks and mail handlers have to work. On the other hand, only a small fraction of postmaster salaries are considered volume-variable costs since these costs are, for the most part, unaffected by changes in mail volume. In 1998, volume-variable costs totaled more than $33 billion, or about 56% of total costs. The more than $26 billion remaining costs are non-volume-variable and must be borne, ultimately, by the combined revenues of all classes of mail.

First-Class Mail, Priority Mail, and Standard Mail (A) combined to provide almost 93% of our volume and contribution. Revenue, however, was below expectations. Because we projected revenues to be about $500 million below plan by the end of 1999, we took aggressive action to reduce expenses without sacrificing service. Thus, we exceeded our goal of $200 million net income. In addition, by taking these measures to reduce expenses, we have laid the foundation to achieve our ambitious plan for 2000. While we will continue to do everything we can to increase our revenues and reduce our expenses, we will focus on what we do best, which is delivering the mail. We believe that to succeed in the future we must emphasize personal accountability, service, effective use of resources, and product contribution.

Expenses

Two operating expense categories made up 83% of our total expenses in 1999: Personnel Compensation and Benefits, and Transportation Expense.

Compensation and Benefits

Our personnel compensation and benefits grew $1.7 billion or 3.8% over 1998 due to contractual wage increases, a 0.9% growth in work hours, and a significant increase in health benefit premiums. This compares to growth of 4.0% in 1998 and 2.7% in 1997. Base salaries alone increased more than $1 billion in 1999. Our health benefits expenses were $265 million greater than last year, driven by plan year premium increases per participant of 8.7% for active employees and 11.3% for annuitants. Due to the high cost of prescription drugs, advances in medical procedures, the aging of the American population, and a general backlash against Health Maintenance Organizations which may result in new legislation, we expect our health benefits expense to continue to grow for the foreseeable future. In January 2000, most of our employees will be covered by a new health benefits formula that shifts about 2% of the insurance premium expense from employee to employer.

Growth in Compensation and Benefits

1997	1998	1999
2.7%	4.0%	3.8%

Total retirement expenses (excluding interest) grew by $424 million, but overtime expenses were reduced by $141 million and workers' compensation expense was $157 million less than last year. The primary reason for an increase of $269 million in lump-sum expense was a recent arbitration decision granting lump-sum payments in lieu of retroactive pay adjustments.

In December 1998, we reached negotiated settlements for the first time since 1987 with two of our major unions, the American Postal Workers Union (APWU) and the National Postal Mail Handlers Union. Employees covered by these two-year collective bargaining agreements received a 2.0% general wage increase and semi-annual cost of living adjustments. Based on a wage reopener clause in their 1995 agreement, the National Rural Letter Carriers' Association (NRLCA) agreed to accept the first year 2.0% general increase specified in the APWU and Mail Handlers agreements as well as continuation of the semi-annual cost of living adjustments. Our current agreement with the NRLCA expired in November 1999.

We did not reach a negotiated settlement with the National Association of Letter Carriers (NALC) when their contract expired in November 1998, so by law we went to binding arbitration. In September 1999, the arbitration panel announced its decision, which resulted in a three-year contract that generally follows the APWU and Mail Handlers pattern with one major exception. The arbitration decision provided for the upgrade of all letter carrier craft employees from their current Grade 5 classification to Grade 6 effective November 2000, while maintaining the salary differential between Grade 5 and 6. We estimate that these salary upgrades will cost $328 million in 2000 and $367 million in 2001, when fully implemented.

In addition to receiving merit adjustments, lump-sum payments for individual performance, or both, most of our professional and management staff participated in the Postal Service's Economic Value Added (EVA) variable pay program. Next year, our non-bargaining employees will again participate in the merit pay and variable pay programs that base compensation on individual and group corporate performance aligned with the *CustomerPerfect!* process.

Transportation

Transportation expenses grew at a slower rate from 1997 to 1999 due to lower fuel prices and two service initiatives. The transportation of Priority Mail is now increasingly being handled by a contractor, shifting some expenses to Other. The second service initiative, designed to improve ontime delivery to our customers was the movement of some mail from commercial air transportation to dedicated surface transportation. This increased our control over the timeliness of mail transportation and reduced costs. Transportation costs will continue to increase because these expenses are tied to our mail volume, which increased by almost 5 billion pieces in 1999.

In 2000, we expect our transportation costs to increase due to continued moderate volume growth. We are also changing some mail to dedicated air transport to increase our transportation timeliness even further. At the end of 1999, gasoline prices began to climb, which will also directly affect our 2000 expenses. For example, a 20 cent increase in the price of a gallon of gas for the entire year will increase our annual expenses over $100 million.

Retirement Expenses

Most of our employees participate in one of three retirement programs, under the auspices of the United States government's Office of Personnel Management (OPM), based on the starting date of their employment. (Please see Note 6 of the Notes to Financial Statements for details.) These three programs are the Civil Service Retirement System (CSRS), the Dual CSRS/Social Security System (Dual) and the Federal Employees Retirement System (FERS). Both CSRS and the Dual systems are now closed to new participants.

Growth in Transportation Expenses

1997	1998	1999
7.8%	4.5%	1.4%

FERS, our current retirement system, is funded so that all future costs, including cost of living adjustments and post-retirement benefits, are paid from present contributions. Thus, this program has no deferred liability.

The retirement benefits for employees enrolled in our two former programs, CSRS and Dual, represent two liabilities in our financial statements. The first liability, which is based on basic pay, is decreasing due to salary moderation and pay increases that have been below the rate of inflation. In addition, the number of employees in this program is decreasing because the program is closed and admits no new participants. The rate of growth of the second liability, which is based on cost of living adjustments, is decreasing because of low inflation.

The Postal Service has become a leader in the use of flexible-fuel vehicles (FFVs). In 1999, 11,275 FFVs were approved for purchase.

Net Income

1997	1998	1999	3-year Total	2000*
$1.3 billion	$550 million	$363 million	$2.2 billion	$100 million

** Estimated*

Workers' Compensation
Our employees are covered by the Federal Employees' Compensation Act that is administered by the Department of Labor's Office of Workers' Compensation Programs, which makes all decisions regarding eligibility for benefits. However, we pay all workers' compensation claims out of our own funds. Thus, our bottom line can be affected every time an employee is injured.

We record as a liability the present value of all the future payments we expect to make to those employees receiving workers' compensation. At the end of 1999, we estimate our total liability for future workers' compensation costs at $5,306 million. At the end of 1998, this liability was $5,287 million. In 1999, we recorded $603 million in workers' compensation expense compared to the $760 million we recorded in 1998. Please see Note 2 of the Notes to Financial Statements for details.

Economic Value Added
Economic Value Added (EVA) variable pay is the measure we use to evaluate our total financial performance, determine whether a business strategy makes financial sense, and reward employees by tying compensation to measurable performance. EVA helps us manage our business more efficiently, develop solid cost-control measures, and improve customer service by delivering the new products and services our customers want. Our mission is to be a customer-driven business with products that provide the best value in the postal communications market. We think EVA is an important means for achieving that goal.

Expense Growth in 2000
While our operational expenses will increase about 5%, programs will decrease slightly, producing an increase in total expenses of about 4% in 2000. Almost 90% of this increase in expenses will come from personnel compensation. Although we expect actual work hours to decline about 1% even as mail volume increases, we expect personnel compensation expenses will increase due to increases in labor rates and benefits costs. While we expect transportation expenses to increase modestly over 1999, this increase is due to inflation and the growth in our workload. In addition, we expect nonpersonnel expenses to grow less than 1%.

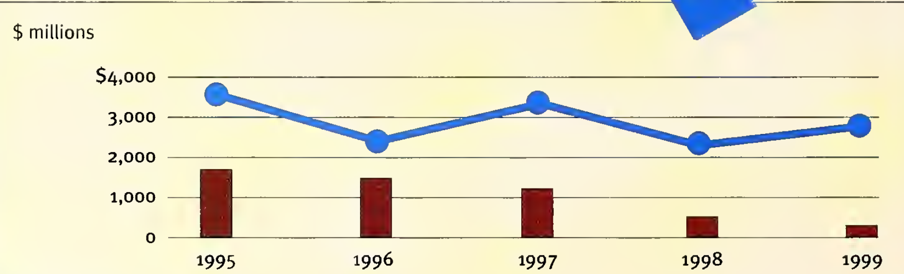
Net Income

The table above shows our three-year net income summary. Our net income of $363 million in 1999 continues our financial successes of the prior four years and for the first time gives us five consecutive years of positive bottom line results. This is important because net income contributes to the cash flow we use to make the investments needed to improve service at an affordable price. But cash flow from operating activities consists of more than net income. On page 47 is a complete summary of all the components of cash flow in our Cash Flow Statement.

For 2000, we anticipate a net income of $100 million. To achieve this goal, we know that we must reduce work hours by nearly 1 million from 1999 levels, without adversely impacting service.

Net income contributes to the cash flow we use to make the investments needed to improve service at an affordable price.

Net Income and Cash from Operations



	1995	1996	1997	1998	1999
Cash Flows from Operations	$3,581	$2,489	$3,347	$2,447	$2,912
Net Income	$1,770	$1,567	$1,264	$ 550	$ 363

Productivity

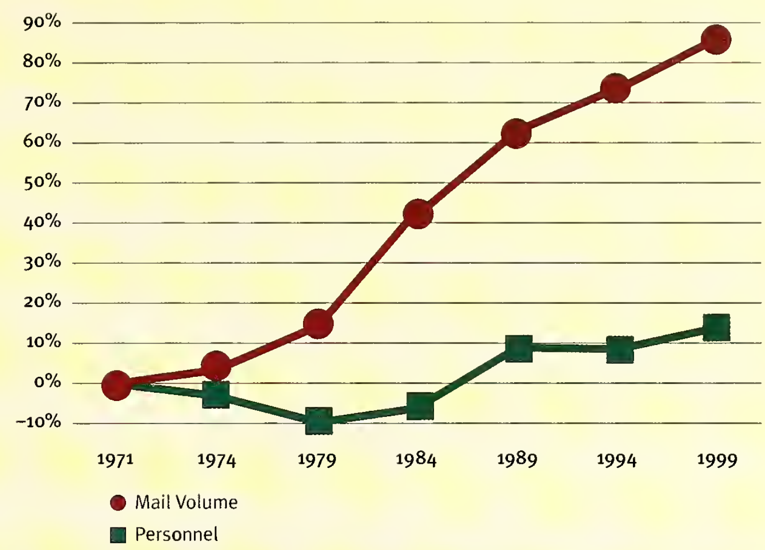
Improvements in productivity are a hallmark of successful companies. Our government mandate does not protect us from competition or technological change, thus we are constantly striving to process more mail as efficiently as possible.

We use several measures internally to track productivity, including the Total Factor Productivity (TFP) measurement system. This system measures productivity over time by measuring the changes between outputs and the resources used to produce those outputs. As our output measure, we use the mail volume we deliver and the number of delivery points we serve. The TFP system takes into account workload factors such as size (e.g., letter, parcel, magazine), weight, preparation (e.g., prebarcoding and presorting), and mode of transportation (e.g., air vs. highway). Our resources measure consists of all the labor, capital and materials we use in providing our services and supporting our operations, including all our equipment, facilities, transportation, other nonpersonnel costs, and indirect costs such as headquarters expenses. A similar measure of productivity in the private sector reported by the Bureau of Labor Statistics is Multifactor Productivity (MFP) for nonfarm business. TFP and MFP are best used to analyze long-term trends and are not effective as short-term measures or snapshots in time.

Our goal, as outlined in our Five Year Strategic Plan (1998-2002), is to improve TFP over time at an average rate of 0.5% per year. Throughout most of the 1990s, we invested heavily in improving customer service and satisfaction, increasing automation and mechanization, and upgrading infrastructure. Many of these investments reduce TFP in the short-term because the resource usage is immediately recognized, while the savings occur over time. As a result of these major investments, TFP has grown 2.2% during the 1990s, which is less than MFP. For the same period, though, our labor productivity increased by almost 12%. Our actual TFP of –0.3% in 1999 was better than the goal of –0.4% we had set in our annual performance plan and positions us for productivity growth in the future.

Additionally, some of the investments we make provide benefits that TFP cannot measure, such as significant service improvements and increased customer satisfaction. We think that increasing our on-time External First-Class Mail Measurement scores for overnight delivery areas from 83% in 1994 to 93% in 1999 is as important as any increase in productivity. Also, in 1998 and 1999, we invested in a dedicated Priority Mail network to improve service quality and consistency, as well as adding a delivery confirmation feature to make our Priority Mail and parcel products more attractive in the marketplace. Some costs, such as our Y2K expenditures have no productivity benefits, but are necessary nonetheless. For more details read our Cost reductions section under Capital.

Growth in Mail Volume and Personnel



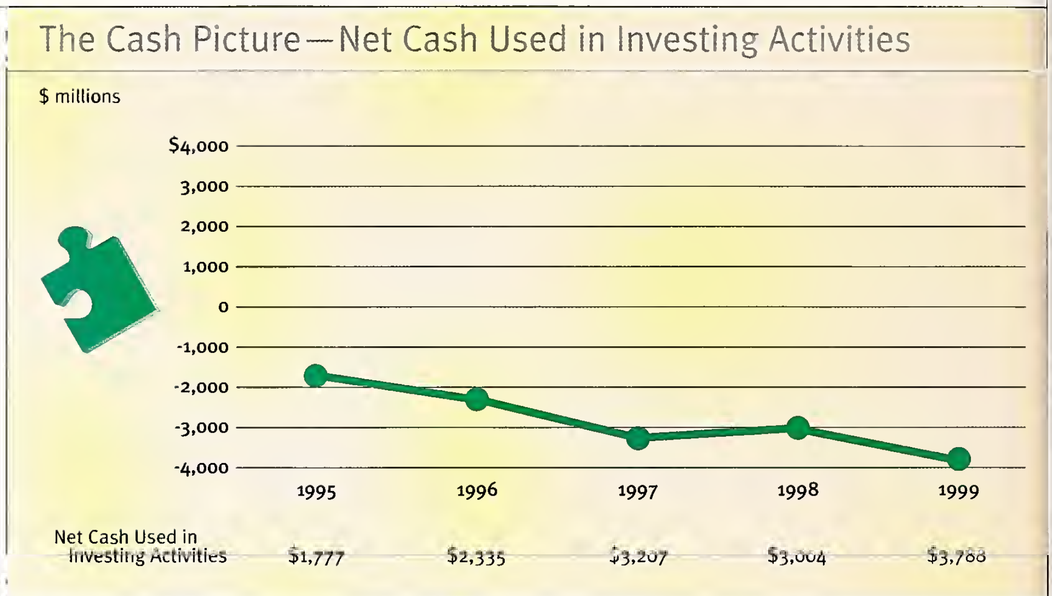
On a percentage basis, it is clear that mail volume has increased dramatically while the percentage of workers has not.

Capital

In this section, we discuss the capital investments we made during 1999 and the investments we plan to make in 2000 in order to control costs, improve customer service and satisfaction, and provide the groundwork for the development of new products in the future.

As part of our presentation on financial concepts, here is another part of the puzzle. It shows how we spend cash for improvements to our equipment, facilities and vehicles. On pages 46 to 47 we complete the puzzle and your understanding of our financial condition.

Using cash to invest in equipment and facilities lays the foundation for the future. Over time these investments will reduce costs and improve service.



1999 Capital Investments

This is the fourth consecutive year that we have had capital commitments of over $3 billion. During 1999, the Board approved a total of $1.257 billion for 16 new major capital investment projects that met the $10 million Board approval threshold. We made commitments for the majority of these projects. This brings to 47 the total number of active Board-approved projects, representing over $5.435 billion in capital investment. Of these 47 projects, 11 are facility projects, 25 are equipment projects and 11 are "other" projects.

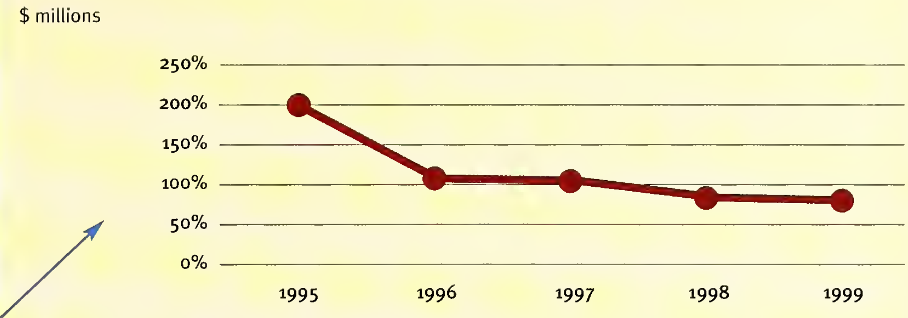
During 1999, we committed $1.7 billion to building or improving facilities in order to handle greater volumes of mail due to the growth in population, mail volume, and delivery points. We also committed $1.2 billion for labor-saving mail processing equipment such as the Tray Management System, Delivery Barcode Sorter-Optical Character Reader Expansion, and Handwritten Recognition–Remote Computer Readers.

We committed $285 million for vehicles, primarily for Carrier Route Vans. Our $194 million in retail commitments were for Point-of-Service and Self-Service vending equipment.

2000 Capital Plan

The 2000 capital plan is designed to improve customer service and promote aggressive cost management. The plan consists of mail handling equipment projects, improvements to facilities, major engineering efforts and customer service

Cash Flow to Capital Expenditures Ratio (CAPEX)



	1995	1996	1997	1998	1999
Cash Flow from Operations	$3,581	$2,489	$3,347	$2,447	$2,912
Capital Expenditures*	1,795	2,336	3,207	3,006	3,788

** Net cash flow from purchase and sale of property and equipment.*

programs. The plan helps ensure profitability in 2000 and beyond, while ensuring corporate accountability, credibility, and competitiveness.

To minimize borrowing, we fund projects from our cash flow from operations as much as possible. The CAPEX (capital expenditures) ratio graph illustrates the relationship between cash flow and capital expenditures. This ratio (which is calculated by dividing cash flow from operations by capital expenditures) measures the cash flow we have from our operations to pay for new capital expenditures without increasing our debt or using our cash on hand. When this indicator is below 100%, we must use debt to finance our capital expenditures. According to Postal Service bylaws, the Board of Governors must approve the capital budget each year. This approval represents a general concurrence with the capital plan. In addition, the Board requires that they approve projects greater than $10 million.

Equipment

We plan a total of $1.6 billion, or 41% of our capital spending, to be for equipment projects, including research and development, for 2000. Our core strategy for trimming costs and improving performance is to automate an increasing number of functions. Using automated equipment instead of manual labor not only saves work hours and associated indirect costs but also delivers faster, higher quality service. Our investments in automation and mechanization are essential to our goal of strengthening our financial viability by managing costs. In addition, every time we automate a function, we also gain not only greater operational efficiency but data that we can use in future information-based services. For example, we will be able to integrate Tray Management Systems with the Next Generation Sorting Machine that utilizes optical character readers and video encoding to process over 17,000 pieces of mail per hour.

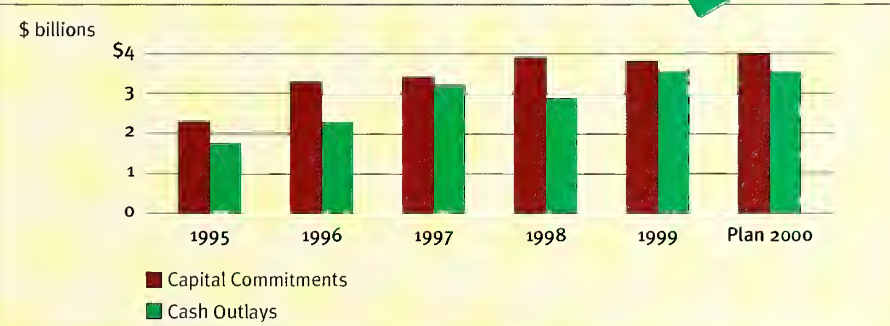
We will continue to invest in the Delivery Barcode Sorter Input/Output Subsystem (DIOSS), a universal modification kit that will be installed on existing delivery barcode sorters (DBCSs) to improve the capacity, speed and accuracy in which letter mail processing equipment reads, processes and sorts mail. We will install the Parcel Sorter Singulator Scan Induction System on all Bulk Mail Center parcel sorters to improve the capacity, speed or accuracy in which parcel mail processing equipment reads, processes and sorts mail. And 175 Automated Flat Sorting Machines (AFSM 100) will improve the processing of periodicals and oversized envelopes.

Infrastructure

We plan to spend $337 million, or 8% of our capital spending, on our infrastructure. In order to improve our mail processing

Our commitment to automation and improving service has been strong for the past five years.

Capital Commitments vs. Cash Outlays



automation and develop future customer services, we need to improve our data collection and management. We must develop the ability to identify and track individual pieces of mail, alone and in unit loads. With Mailing Evaluation Readability and Lookup INstrument (MERLIN) we can improve the consistency of mail acceptance and design robots to read address and indicia, verify meter amounts and weigh and measure the thickness of mail.

Facilities

We will spend $1.4 billion or 35% of the total 2000 capital plan in the expansion or new construction of delivery/retail facilities, processing and distribution facilities and building improvements. These improvements are necessary to keep up with increasing population, mail volume and changing delivery points, as well as to repair or replace aging facilities.

We will invest $226 million in our major mail processing facilities to replace, expand or renovate them, adding new useful features, or addressing legal and safety requirements such as roof and heating ventilation air conditioning replacements and asbestos removal.

Vehicles

We will invest $349 million or 9% of the capital plan in vehicles, including 5,000 mixed delivery and collection vehicles, 2,000 tractor trailers, 175 tractor trucks, and additional cargo and carrier route vans. Our award winning alternate fuel program requires continual funding to comply with federal, state and local transportation regulations.

Retail

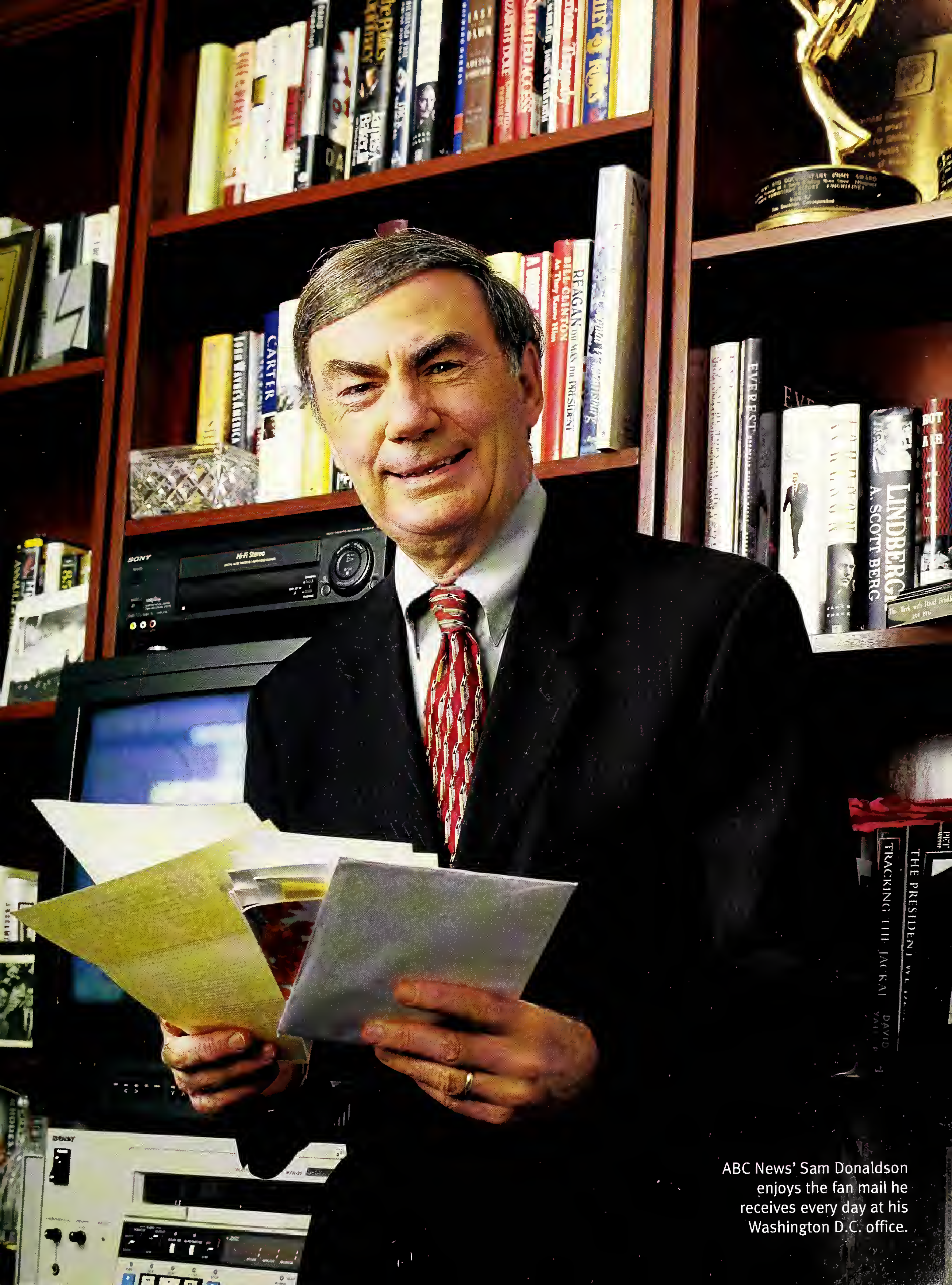
We will invest $281 million or 7% of the capital plan in 5,000 new stamp vending machines with debit and credit payment capability and Point-of-Service (POS) ONE, the new postal retail system.

Cost Reduction Programs

We have planned a total cost reduction of $1.7 billion for 2000, with about 30% of the savings derived from specific programs. The remainder will come from local management initiatives at the field and in headquarters. The vast majority of program savings are linked to new or enhanced equipment and software that will enable us to be more efficient. The savings from Delivery Bar Code Sorters are expected to amount to over $200 million by themselves. The new Mail Transport Equipment Service Centers are expected to account for $77 million in program savings. Remote Bar Code Systems and improvements to computer recognition of addresses are expected to amount to $124 million in savings. Additional Small Parcel and Bundle Sorters, together with the addition of feed systems, are expected to account for $38 million in savings.

Since 1987 we have avoided about $15 billion in labor costs because of our investments in letter automation. We will continue to invest in even greater improvements in the speed and efficiency of existing mail processing equipment. We will install more efficient and productive machines to further reduce the work hours necessary to process mail. These investments in automation will serve both us and our customers now and well into the future.

Automated guided vehicles are currently being designed and tested to move mail between loading and unloading docks and processing equipment.



ABC News' Sam Donaldson enjoys the fan mail he receives every day at his Washington D.C. office.

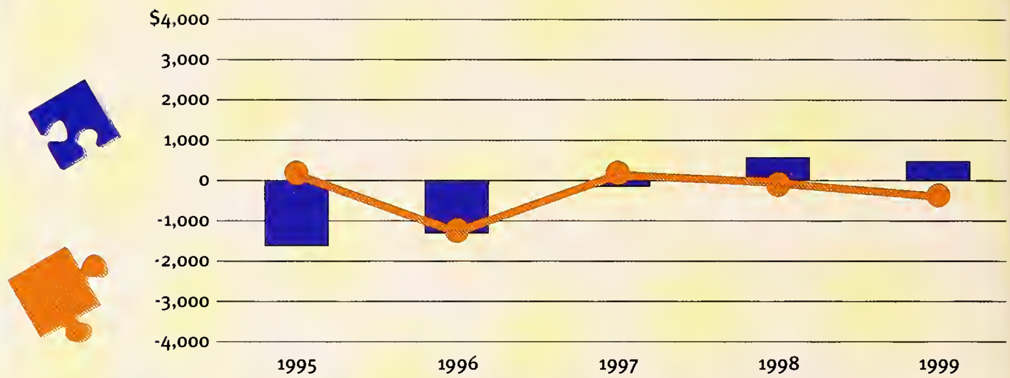
Financing

In this section we discuss the last two parts of the puzzle: how we use cash on hand and borrow to fund the capital investments we must make if we are to improve our services and control expenses. We also discuss our cash management program, which has won a number of awards, and our financing policies and debt limitations. On pages 46 to 47 we complete the puzzle and your understanding of our financial condition.

Most of our capital investments are paid for out of current year operations, while part is paid through debt financing and cash on hand.

The Cash Picture— Net Cash Provided by (Used in) Financing Activities

$ millions



	1995	1996	1997	1998	1999
Net Cash from Financing Activities	$(1,708)	$(1,361)	$(47)	$549	$ 496
Change in Cash	96	(1,207)	93	(8)	(380)

Cash Flow

One of our goals is to finance as much of our capital program as we can by using internal funds from our business cash flow, thus reducing the amount we have to borrow. Our capital cash outlays are the funds that we invest back into the business for such capital improvements as new facilities, new automation equipment, and new services. (These capital improvements are discussed in the preceding section, Capital). By borrowing only as much as necessary, we minimize the average debt outstanding and our interest expense.

From a cash flow standpoint, we continue to benefit from the fact that our customers pay in advance of service. At the end of the year, the amount of prepaid postage, box rentals, permit mail and metered mail was $3.7 billion, and the amount of accounts receivable remained relatively low at $578 million. These amounts have a direct impact on the amount that we borrow. If the amount of these prepaid balances is reduced or if the amount of the receivable balance is increased, our need for financing is increased accordingly. However, changes to these accounts notwithstanding, our borrowing requirement is largely determined by the difference between cash flow from operations and our capital cash outlays. In 1995, 1996 and 1997, cash flow from operating activities exceeded capital cash outlays. We reduced the amount of cash that we kept on hand and also used all excess cash flow to repay debt outstanding by $3.1 billion during that period. Starting in 1998 our capital investment exceeded our cash flow so we increased our debt by $549 million in 1998 and $496 million in 1999. In other words, although most

of our capital investment was paid for out of current year's operations, part was paid for through debt financing and part through cash on hand. Even with this borrowing, our debt outstanding at the end of 1999 of $6.9 billion is at almost the same level that it was in 1990.

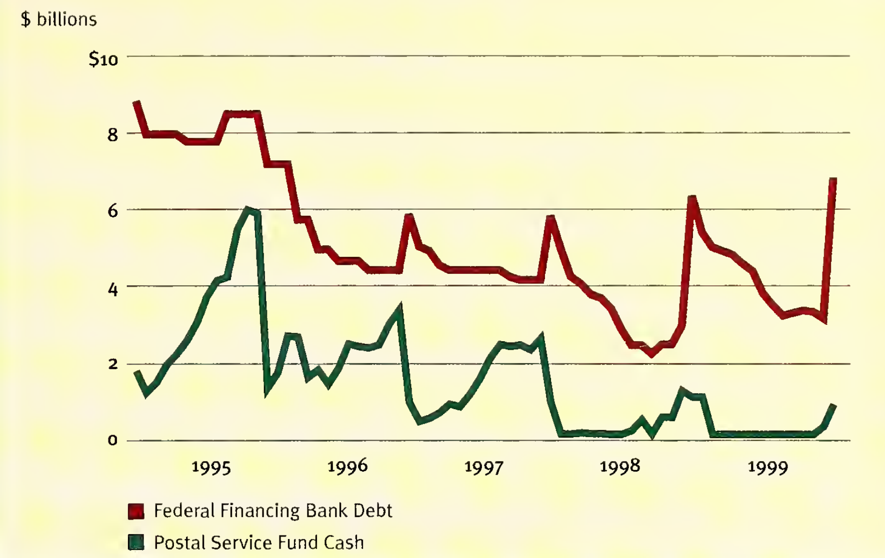
The chart to the left shows the annual change in debt and the line indicates changes to our cash in the bank. Note that our operating results were excellent in 1995 and 1996, helping us reduce debt by a total of $3.1 billion. In 1996 we also used excess cash to further reduce our debt obligations. This year we used our cash on hand to help cover our capital acquisitions.

Liquidity

Liquidity is the cash we have in the bank (the Postal Service Fund) and the amount of money we can borrow immediately if needed. In the 1990s, we have worked to rely less on the cash we have on hand and more on the ready availability of credit. This change has saved our customers millions of dollars in interest expense. Over the past few years, we have worked closely with the Department of Treasury and its Federal Financing Bank (FFB) to put in place the tools we need to manage our cash and debt more effectively, including call options, floating rate debt with real-time pricing, revolving credit lines, and notes on the shelf that we can draw upon with two days' notice.

Our Note Purchase Agreement with the FFB, signed this year, increased our revolving credit lines to $4 billion. We also increased to $600 million the amount we can borrow on same-day notice. We also have floating-rate debt and fixed-rate debt readily available, with maturities ranging from a few days to 30 years. For all long-term debt we can create either callable or non-callable issues. In addition, we can price certain debt in the few minutes it takes to place a phone call, while we can price other long-term borrowing as of the close of business on the same day.

Strategy: Minimize Cash and Debt



These financing tools give us unprecedented flexibility and reduce the time it takes us to borrow funds while reducing market risk. With these tools in place, we can manage our liquidity to achieve the best results. We used our credit lines extensively in 1999, resulting in near zero ending cash balances on 319 days, with an average of $35 million for the year, compared to 175 days in 1998 with an average of $289 million. In 1995 by contrast, we did not achieve any days with near zero cash on hand, and the average cash balance for the year was $3.195 billion. The chart above shows the relationship between our cash and debt.

We use a strategic balance of long- and short-term debt as well as a balance between fixed- and variable-rate debt. In October 1998, taking advantage of declining market rates, we locked in $100 million of 29 year financing at 4.836%, the lowest long-term borrowing in Postal Service history. On September 30, 1999 we added an additional $750 million at an initial rate of 4.977% with a final maturity in 2034. The interest rate

We have managed our interest expense down to the lowest level in over ten years.

on this financing is reset quarterly and the obligation can be repaid at par on any interest-reset date. This brings the total amount of debt classified as long-term at a rate below 5% to $1.25 billion. The weighted average rate of interest for the long-term portion of our portfolio at year end declined in 1999 to 5.61% from 5.89% in 1998. We prefer to maintain a mix of fixed and floating rate debt because we believe that, over the long-term, variable or floating rate debt will provide more cost-effective financing than fixed-rate debt. However, we strive for an even balance and will issue fixed-rate debt when market opportunities arise or when we believe it is necessary for risk reduction.

Debt/Average Debt/Interest Expense

	Year-End Debt $ billions	Average Debt $ billions	Interest Expense $ millions
1995	$7.3	$8.1	$566
1996	5.9	5.4	368
1997	5.9	4.4	307
1998	6.4	3.2	167
1999	6.9	3.9	158

In addition to significant cash flow from operations, we have substantial supplemental borrowing capacity to support our operations and to finance the growth of our business through capital investments. Our debt outstanding at the end of the fiscal year was $6.9 billion, an increase of $496 million compared to 1998. While our capital expenditures of $3.9 billion exceeded our cash flow from operations of $2.9 billion, we reduced our cash on hand on September 30 by $380 million. Normally, our debt balance at the end of the fiscal year represents our highest level debt for the year because we have payments of approximately $4 billion that come due. This means we have lower debt outstanding throughout the year, on which we have to pay interest. Our average debt outstanding increased to $3.9 billion from $3.2 billion in 1998, and the interest we paid on our financing was reduced from $167 million in 1998 to $158 million in 1999. Lower interest rates on our variable rate debt helped to reduce the weighted average interest rate of our total portfolio to 5.5% from 6.5% last year.

While we anticipate that our operating activities in 2000 will continue to provide us with sufficient cash flow to cover expected operations, we also anticipate the increase in our debt will be larger than in 1999. The amount we borrow in 2000 will be influenced by a combination of lower net income, larger capital cash outlays, and the fact that both the first business day and the last business day of our fiscal year are paydays. By achieving the targeted $100 million net income in 2000, we will have approximately $1.7 billion in cash flow from operations to finance roughly half of our expected capital cash outlays of $3.6 billion. The other half will need to be financed with a projected increase in debt of $1.9 billion. We would have projected $0.9 billion were it not for the fact that instead of the standard 26 pay dates, fiscal 2000 contains 27 pay dates. Our total debt outstanding may increase to $8.8 billion at the end of fiscal year 2000, but average debt outstanding will not increase nearly as much during the year. This $8.8 billion is well below the total legal debt ceiling of $15 billion and is below the level of debt outstanding in 1994.

Award Winning Cash Management

In 1999, our cash management programs earned national recognition from both the Association for Financial Professionals (AFP), formerly known as the Treasury Management Association, and *Treasury & Risk Management* magazine.

We received an Honorable Mention in the AFP Pinnacle Awards, a program that recognizes excellence and innovation in financial

management. Only three companies were presented with a Pinnacle award in 1999, an award we received for our use of technology to streamline and automate our $80 million employee uniform allowance program.

The Uniform Allowance Purchase Card program was also honored with a Bronze Alexander Hamilton Award for Technology. The Alexander Hamilton Awards are presented each year by *Treasury & Risk Management Magazine* for excellence in treasury management. We also won a Silver Alexander Hamilton Award in Cash Management for consolidating our commercial banking group. In the early 1990s, the Postal Service used 5,500 banks for cash management services. Over the last two years we reduced the number of banks we use for these services by approximately 96%.

This was a repeat performance for the Postal Service at the Alexander Hamilton Awards. In 1998, we won a Gold Award for Cash Management and a Bronze Award for Corporate Finance.

Relationship Banking and Electronic Commerce

With relationship banking, banks have become our strategic partners. Together we have accelerated funds through our collection and concentration system, and put in place the world's largest card acceptance program. These cards are a great benefit to both our customers and to us, providing customer convenience, competitive service, better cash management and cost effective practices. In 1999, card-initiated sales totaled $3.4 billion, an increase of 27% over 1998.

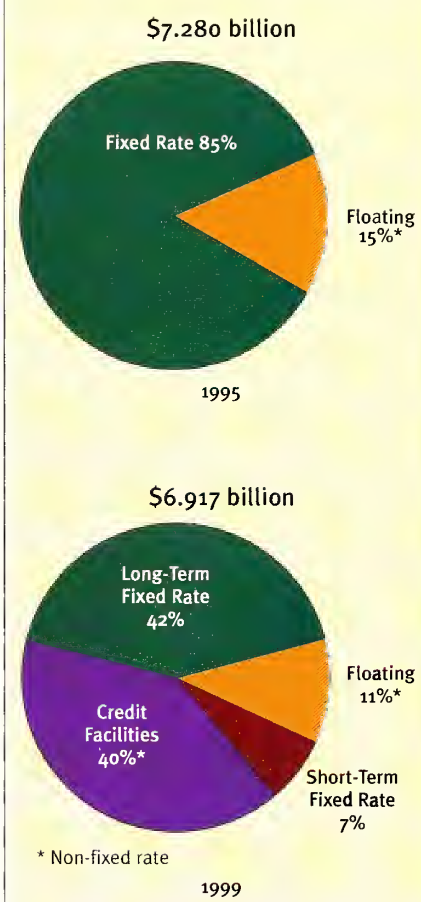
Streamlining continued this year with the award of a contract to a new relationship bank, The Chase Manhattan Bank, for our national treasury management services. This relationship centralizes and automates our cash concentration, our electronic funds transfer and foreign exchange, our bank reconciliation, and all non-payroll check disbursements. Full implementation of the contract will yield far-reaching results that will greatly improve the Postal Service's daily cash management function. Foremost among these are the acceleration of central cash concentration, thus largely reducing unnecessary float; increased automation of processes; fewer manual inputs; and, an augmentation of time-saving interfaces between our various units, financial institutions, and vendors. The ultimate goals to be served in this instance are to maximize the usage of state-of-the-art technology in managing our liquidity, a significant challenge in an organization with over $91 billion in annual cash flow, and to reduce operating and interest expenses.

Just as the Postal Service takes a great deal of pride in being one of the largest and most diverse work forces in the world, we further our commitment to diversity by actively participating in the U.S. Department of the Treasury Minority Bank Program. Funds, in the form of certificates of deposit, have been placed with 65 minority banks this year based on each bank maintaining acceptable levels of solvency, liquidity, capitalization, and loan portfolio quality. In addition, the Postal Service utilizes five of these banks as field depository financial institutions. The Postal Service consciously chooses to partner with minority banks because it makes good business sense to do so.

We are also beginning to play a role in the rapidly expanding arena of electronic commerce. The Postal Service is a founding sponsor of a small business portal (www.bizzed.com) along with one of our relationship banks and other world-class businesses.

The first release of the portal has Internet links to USPS Business Services and Products, USPS MoversNet, USPS Stamps Online, and the USPS home page.

Debt Flexibility



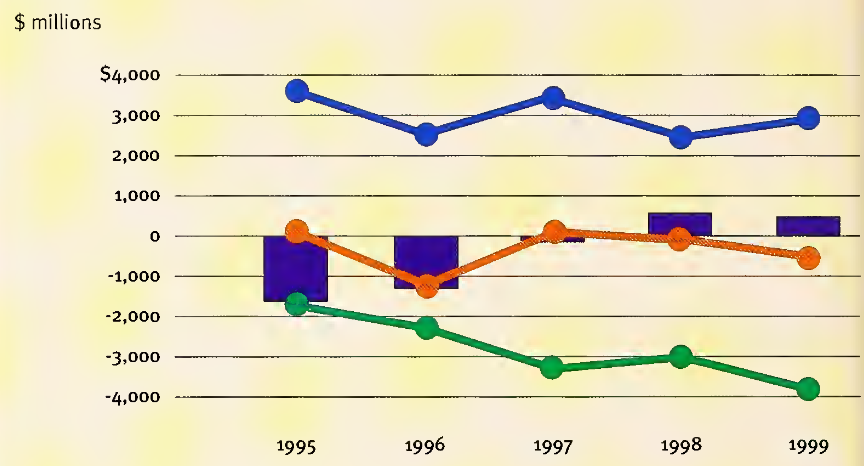
Our increased debt flexibility has saved our customers millions by giving us the tools we need to manage our cash and debt.

Understanding Our Financial Condition

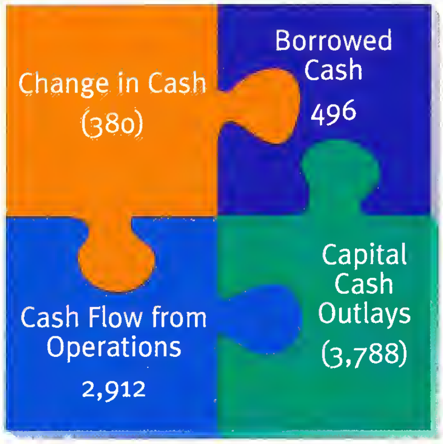
According to the American Institute of Certified Public Accountants, you need to understand a company's Cash Flow Statement in order to understand a company's financial condition. But if you're not an accountant, this Statement is probably a puzzle. Because we want everyone to understand our financial condition, we have presented throughout our MD&A the main concepts you need to understand in order to solve this puzzle. Here we bring together all the parts of the puzzle so you can see the complete picture and understand our "cash picture."

This chart shows our entire cash picture. Despite the large numbers, cash management for a large organization is similar to that of a family household. Our family has income like a paycheck, but it's earned one stamp at a time. Like a household, we use our income to buy what we need: vehicles, buildings and equipment. If our paycheck isn't large enough, we use the cash we have in the bank, or we borrow what we need and pay it back with interest, just like a family.

The Cash Picture



	1995	1996	1997	1998	1999
Operations	3,581	2,489	3,347	2,447	2,912
Capital	(1,777)	(2,335)	(3,207)	(3,004)	(3,788)
Financing	(1,708)	(1,361)	(47)	549	496
Change in Cash	96	(1,207)	93	(8)	(380)



In the first section of our MD&A we discussed our operations. We explained how net income is one of the main components of cash flow from operations. (This year we had $363 million in net income.) That is why accountants lead off the Cash Flow Statement with net income. We explained how our mail volume and our rates determine our revenue. We explained our major expenses and how hard we worked this year to reduce expenses in order to make up for lower revenue than we expected.

Next we discussed our Capital investments of $3.917 billion. We explain our emphasis on investing in equipment to control costs, improve customer service and increase productivity.

Last, we discussed our financing. Our goal is simple: putting our cash ($380 million) to work as fast as we can is more productive than letting it sit in the bank. We also try to keep our debt as low as possible ($496 million) so we pay as little as possible in interest.

Condensed Statement of Cash Flows

For the Year Ended September 30, 1999

$ millions

Cash flows from operating activities:		
Net income	$ 363	Total revenue minus total expenses
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,795	The charge we take because some of the useful life of our assets was used up during the year
Changes in assets and liabilities	754	
Net cash provided by operating activities	**2,912**	The change in the net value of our assets and liabilities
Cash flows from investing activities:		
Purchase of property and equipment	(3,917)	
Proceeds from sale of property and equipment	129	
Net cash used by investing activities	**(3,788)**	The money we actually spent in 1999 to purchase vehicles, new automation equipment, and build or remodel our facilities.
Cash flows from financing activities:		
Proceeds from issuance of debt	4,129	
Payments made on debt	(3,633)	
Net cash provided by financing activities	**496**	The net amount we borrowed for the year
Net decrease in cash and cash equivalents	(380)	
Cash and cash equivalents at beginning of year	395	
Cash and cash equivalents at end of year	**$ 15**	The cash we had on hand at the end of the year.

Other Issues

In this section we discuss those issues that lie outside the scope of our financial discussion. However, all of these issues are important to an understanding of our business and they may significantly affect our financial condition. We discuss proposed postal legislation, the effects of classification and rate changes, environmental matters, our Year 2000 preparations, inflation, and our research and development efforts.

Recent Legislative Activity

In 1999, a number of postal-related bills were introduced in the first session of the 106th Congress. In January, Congressman John McHugh, Chairman of the House Subcommittee on the Postal Service, re-introduced H.R. 22, the Postal Modernization Act of 1999. This bill addresses many of the issues essential to positive reform, including preserving universal service, modernizing postal rate-making, and improving incentive compensation. On April 29, the Subcommittee approved Chairman McHugh's revised bill by voice vote and sent it to the full Committee on Government Reform for consideration. In July, Representative Henry Waxman, Ranking Minority Member of the Committee on Government Reform, introduced a competing postal reform bill, H.R. 2535, which also was referred to the House Committee on Government Reform.

Identical post office relocation bills were introduced in both chambers. In February, Representative Earl Blumenauer (D-OR) sponsored H.R. 670, followed by the introduction of Senator Max Baucus' (D-MT) S. 556 in March. The Senate Subcommittee on International Security, Proliferation, and Federal Services held a hearing on S. 556 on October 7. Both bills would impose cumbersome administrative procedures on the Postal Service and the citizens we serve.

In March, Congressman Duncan Hunter (R-CA) introduced H.R. 198, the Postal Service Core Business Act of 1999. This proposed law would prohibit the Postal Service from offering any commercial non-postal service, retroactive to January 1, 1994. Representative Hunter introduced similar legislation in the 105th Congress.

Senator Susan Collins, Chairwoman of the Senate Permanent Subcommittee on Investigations, introduced S. 335, the Deceptive Mail Prevention and Enforcement Act. This act contains a number of needed provisions, including restrictions on the use of misleading references to the U.S. government; restrictions on facsimile checks, sweepstakes, and games of skill; and provisions for multiple temporary restraining orders, civil penalties, and administrative subpoena authority. In August, the Senate passed Senator Collins' bill by a vote of 93-0.

In September, both the House and Senate passed the Fiscal Year 2000 Treasury/Postal Service appropriations bill, and the President signed the bill on September 29. This measure provides full funding for the Postal Service: $29 million for revenue forgone repayment and a payment of $64.4 million for free mail for the blind and overseas voting, which will not be available until October 1, 2000.

Classification and Rate Changes

On January 10, 1999, we implemented a new rate structure that increased rates an average of less than 3%, the smallest rate increase in our history and the longest interval between general rate increases

U.S. Senator Daniel K. Akaka, ranking Democrat on the Postal Subcommittee, takes a break to read mail from his home state of Hawaii.

since 1971. Generally, our new rate structure provides more opportunities for our customers to reduce their mailing costs, while it allows us the opportunity to offer our customers new services.

In June 1998, the Board of Governors approved a filing with the Postal Rate Commission (PRC) to test market experimental versions of our new Mailing Online™ service. Mailing Online allows customers to send electronic documents and mailing lists to the Postal Service via the Internet. The system then transmits the documents to private printers who produce automation compatible mail pieces for entry at designated Postal Service facilities. The Postal Rate Commission approved our request for a one-year market test, which was conducted in the northeastern United States. Based on the results of this, the Governors approved a resolution on May 3, 1999 withdrawing their request for a nationwide Mailing Online experiment. We are currently evaluating what we learned in our market test so we can formulate a new request for Mailing Online.

In March 1999, we filed two requests related to the use of bulk weight averaging as a low-cost alternative to piece-by-piece accounting for nonletter-size Business Reply Mail (BRM). In the first request we asked the Commission to renew the experimental classification and fees for weight-averaged nonletter-size BRM until the end of February 2000, or until implementation of a permanent classification and fees, whichever came first. In the second request, we proposed permanent classification and fees to replace those in effect under the experiment.

In May 1999, the Commission approved a Stipulation and Agreement that extended the weight averaging experiment with the lower permanent fees we had requested in March. The Governors approved this recommended decision and ordered it implemented when the original experiment expired in June.

In July 1999, the Commission approved a Stipulation and Agreement that the requested permanent classification and fees be established.

Because of rate design complexities, the last omnibus rate case created an anomaly that caused Periodicals Nonprofit and Classroom (preferred) mailers to pay higher postage using the rates available

Environmental performance at Suburban Maryland P&DC and VMF serves as a Postal Service model for an integrated business approach considering the environmental impacts of all operational and business decisions.

in the preferred rate schedules than under the regular rate schedule. To correct this anomaly, we filed a request with the Postal Rate Commission on April 9 proposing a classification change that would allow preferred mailings to use the Regular rate schedule when it reduces their postage. The Commission recommended the change as proposed, and the Governors implemented it on August 1, 1999.

On August 31, 1999, the Governors approved the Commission's recommendation to allow the return of opened and resealed Bulk Parcel Return Service (BPRS) parcels without the payment of additional postage in certain circumstances. The Commission based its recommendation on a settlement that the parties had negotiated. The change was effective on October 3, 1999.

BPRS allows high-volume parcel mailers to have undeliverable-as-addressed Standard Mail (A) parcels weighing less than one pound returned at a flat fee of $1.75. This service now includes parcels that have been opened, resealed and mailed by the recipient using a mailer-supplied BPRS return label. Previously, only unopened parcels could be returned as BPRS. In addition, we will now return to the mailer those parcels we find in the mailstream that have neither additional postage nor a BPRS return label, as long as it is impracticable or inefficient for us to return them to the recipient for return postage.

On September 27, 1999, we filed a request with the Commission proposing a two-year experimental classification change that would allow one attachment or enclosure in each copy of a periodical publication for a flat rate of ten cents rather than the current Standard Mail (A) rate. This experiment would apply to all Periodicals subclasses. Because the attachment or enclosure would have to meet stringent physical criteria, it would not cost us more to process and deliver a periodical with it. We think this change will attract additional attachments or enclosures and increase our revenues. Because many members of the Periodicals industry support this proposal, we have proposed that we work with the industry to reach a negotiated settlement. The Commission has authorized settlement negotiations.

In response to a complaint regarding PosteCS, a wholly electronic, Internet-based document service designed to support secure electronic communications, the Commission is currently considering the question of whether PosteCS is a "postal" service for purposes of the Commission's rate and classification jurisdiction. We maintain that PosteCS is plainly not a "postal" service for purposes of the Commission's jurisdiction according to the definitions of that term put forth by the courts, the Commission itself, and the Governors of the Postal Service. The complaint case is currently pending before the PRC awaiting resolution of this jurisdictional issue.

Environmental Matters

One of our major concerns is protecting the environment as well as the health and safety of our employees and the communities in which we work. Our environmental policy focuses on sustainable development, development that allows us to meet the needs of the present without compromising the ability of future generations to meet their needs. Thus, we are concerned with environmental issues in everything we do. With sustainable development, we are able to grow while reducing our impact on the environment. Indeed, by focusing on sustainable development, we help our bottom line by reducing pollution and operating costs.

During the year we undertook a number of initiatives as part of our environmental

program. We are installing the world's largest commercial fuel cell system in Anchorage, Alaska. While generating one gigawatt of power, this system operates virtually pollution free, saving more than 200,000 pounds of air pollution and 5,500 tons of carbon dioxide from entering the atmosphere each year of operation. We are purchasing 21,275 flexible-fuel vehicles that operate on ethanol, unleaded gasoline, or a combination of both. These new vehicles will join a fleet of over 8,000 alternate fuel vehicles. In addition, we placed an order for 500 electric vehicles with an option for an additional 5,500. We are the leader in environmental packaging in the overnight package service industry with envelopes and boxes made from 100% recycled materials and a minimum of 80% postconsumer content. The 1999 Tropical Flower stamp was printed using bio-based inks, 20% recycled paper and benign adhesives. And because we make these stamps with double-sided construction we have reduced by 75% the amount of paper liner that is discarded.

In July, after over a year of work, our Suburban Maryland Processing and Distribution Center (P&DC) and Vehicle Maintenance Faculty (VMF) in Gaithersburg, Maryland, declared conformance to the ISO 14001 Environmental Management System. Employees developed a plan whereby minimizing environmental impacts is a primary consideration in performance of daily operations. We believe this successful project can be duplicated at other postal facilities.

Since 1995, we have received a number of awards for our efforts, including over 50 regional, state and local awards from environmental regulators, eight Hammer awards from Vice President Gore's National Performance Review, and 27 White House *Closing the Circle* awards. In 1999 we received the *United Nations Award for Environmental Excellence* and the 1999 *Robert Rodale Environmental Mailer of the Year* award from the Direct Marketing Association and the U.S. Conference of Mayors. But the real credit for our successful environmental programs must go to our employees who are integrating environmental leadership into their daily activities. For example, employees like Earl Metzler, a distribution clerk from South Bend, Indiana, received the *Recycler of the Year* Award from the National Recycling Coalition. Awards are nice, but the best reward is implementing a successful environmental program that pays dividends for all of us and the communities in which we work and live.

We are involved in various litigation and have unresolved claims pending related to environmental matters. We believe that we have made adequate provision in our accounts for the amounts that may become due under these claims. We are of the opinion that such liability is not likely to be of significant importance in relation to our accounts.

Year 2000 Preparations

Since our major Year 2000 efforts began, we have operated from the premise that the Year 2000 problem represents a business problem, not a technology problem. This problem stems from the practice of using only the last two digits of a year in many computer programs. When the year changes from 1999 to 2000, the two-digit representation "00" may not be recognized by some systems causing errors ranging from simple miscalculation to a complete computer shutdown.

Our Year 2000 preparation program involves three distinct elements: remediation, business continuity and contingency planning, and recovery management. By early fall we completed the remediation, or fixing, of our mission-critical systems, including both mail-processing equipment and business applications. This process

involved four distinct steps: the renovation activity itself, certification by the responsible system manager, independent verification by a third party, and deployment of the remediated system into the daily work environment.

In addition to the system testing that is part of the verification process, we also conducted additional field testing of our critical mail-processing equipment using "live" mail in a Year 2000 environment at representative postal facilities across the nation during the year. We conducted the most extensive testing at our Northern Virginia Processing and Distribution Center, where in August we turned equipment clocks ahead to December 22 and operated in a Year 2000 mode for a six-week period. We had no problems in processing, sorting, and dispatching the millions of letters, packages, periodicals, catalogs, and circulars that flowed through the facility during the test period.

Since we interact with a wide range of suppliers and business partners, we developed a broad spectrum of continuity plans in case our critical business process is interrupted. We looked at what could happen externally to interrupt our ability to complete such processes as mail acceptance, postage payment, mail processing, transportation, and delivery. We then developed 32 general plans at the national level and customized them for some 300 field locations, resulting in more than 500 business continuity plans. In addition, our Supplier Management Office has performed in-depth assessments of the ability of our key national and local suppliers to provide us with necessary products and services into 2000. We also developed component contingency plans, essentially prescriptive "workarounds," in case any element of our critical systems and some non-critical supporting systems fail. For both types of plans, we conducted tests and rehearsals throughout the fall. We also tested our electronic interfaces with our customers and business partners, as well as the readiness of our safety, security, and other building systems at more than 4,000 of our key facilities.

The final element of our program, recovery management, builds on our extensive experience in moving the mail through such impediments as severe weather conditions and natural disasters. Our Year 2000 recovery management plans provide our people with the tools and information they need to preempt, identify, report, track, and resolve Year 2000 related problems. We established a well-defined communication structure to help get the right information to the right people at the right time internally and externally. With this structure we can direct the right level of management attention and resources to any problems that may occur.

We conducted preliminary testing of our Year 2000 recovery management plans in late summer and successfully operated through two key "early-warning" dates, September 9 and September 11. Represented as 9/9/99, the date of September 9 could be read as a "terminate program" instruction by some older systems. September 11, the start of internal planning postal fiscal year 2000, if uncorrected, was prone to the same "two-digit" problem as the calendar year rollover. We included both dates in our preparation efforts.

Throughout this entire project, our objectives have been clear: protecting our customers, protecting our employees, and protecting our business. So far, we have spent $385 million in upgrading our systems and preparing for Year 2000 readiness, and the total cost is expected to be between $450 and $500 million. The focus and efforts of thousands of dedicated people at all levels of the Postal Service have built the solid foundation that allows us to say, "We'll be Ready!"

Inflation

We are a labor intensive business with approximately 76% of our costs attributable to personnel compensation and benefits. Therefore, inflation, as reflected in rising labor wage rates, significantly affects our financial condition. We signed agreements with two of the three unions whose contracts expired in November 1998 and went to arbitration with the third union. These contracts contain Cost of Living Adjustments that fluctuate with inflation.

Turning Research and Development into Reality

Most of what we call research and development consists of testing the new products and technologies, as well as any modifications to existing products and technology that our suppliers have developed. However, we do conduct research and development in the field of optical character recognition simply because this technology is so essential for us and we are the leader in the field. We have continued to improve our Remote Barcoding System that is specifically designed to barcode mail not already barcoded and which existing Optical Character Reading equipment cannot barcode. We have also continued to improve the technology we use to recognize handwritten addresses. Less than three years ago, our Remote Computer Readers (RCR) could fully resolve only 2% of the handwritten mail they received. Today they can fully barcode 56% of the hand-addressed images they receive, and by 2001 they will encode 80%. Finally, after testing at our Tampa and St. Petersburg, Florida, processing plants, we have begun to deploy our new Identification Code Sort (ICS) System which gives us the ability to track mail. Because ICS tells us the location of individual pieces of mail in the mail system, we will no longer have to label and re-barcode over 1.6 billion pieces of mail, thus saving over $90 million annually.

Our test delivery redesign program includes a promise by your carrier that your mail will be delivered each day at the same time.

Delivery Redesign

In previous annual reports, we reported on the investments we have made in new plant and equipment to move the mail quicker, more accurately, and at reduced cost. But our investments also provide us with the information we need to manage our business more effectively and efficiently. While machines can move the mail quickly, it is ultimately the people who operate those machines and who determine the best way to use those machines who make the difference. Good management and good workers make the difference. Now our technology provides us with the information we need to manage our business better, and we are starting to take advantage of this information flow.

We still deliver the mail in much the same way we did a century ago. Now, however, we have begun to test a new system, where our supervisors have the

information they need to manage the delivery of mail better. In order to improve productivity, lower costs, deliver the mail on time and reward employee performance, we have undertaken a complete evaluation of how our mail carriers deliver the mail. Using the information our technology now provides us, we want to find better, more efficient ways to deliver the mail, improve service to our customers, and make the best possible use of our greatest resource, our employees.

With Delivery Redesign, we can:

1) structure our delivery routes so we can meet both our customers' requirements and our delivery commitments;
2) create a management system that grants carriers who exceed expectations the autonomy to manage their workload themselves; and
3) give our managers the tools they need to stabilize delivery operations using the latest process management techniques.

Our guiding philosophy is that mail carriers should be responsible and accountable for their own performance and rely less on supervisors to control and direct their daily performance. With Delivery Redesign, we evaluate mail routes using standards that objectively evaluate the amount of time it should take for letter carriers to do their job each day. However, our managers play an important role in helping our carriers be responsible for their own performance. Our carriers can't meet their minimum performance requirements for productivity if our managers don't do their job. Thus, when our managers operate efficiently and effectively, our carriers are more likely to meet their performance expectations.

Cost Reductions

We are a labor intensive business, so the more we can invest in labor saving equipment the better we can control our costs, as well as improve our service and provide a safer working environment for our employees. Here are some of the investments we are making in innovative technology to provide the best possible service at the lowest possible cost, now and in the future.

New Equipment Savings Analysis

Name	Description	Savings
Improvements to Multiline Optical Character Readers (MLOCR) and Remote Computer Readers (RCR)	New software means that our MLOCRs can put bar codes on 59% of the letters we process with this equipment, and our RCRs can read 56% of the handwritten addresses we process.	Because of these improvements, we eliminated 12 million work hours in 1999 with labor savings of over $208 million.
100 new Small Parcel and Bundle Sorters (SPBS) for a total of 341 installed	This machine sorts small parcels, bundles of mail, and priority mail into as many as 100 separate categories.	These 341 sorters will save about 4 million work hours per year.
64 new Small Parcel and Bundle Sorters Feed Systems for a total of 215 installed	This machine feeds mail into the SPBS and eliminates the heavy lifting previously required.	Each system saves between 9,500 and 13,400 work hours per year
Automatic Tray Sleeving System	This system automatically sleeves all sizes of letter trays.	When fully operational, the 123 units will save approximately 310,000 work hours per year.
Automatic Airline Assignment System	This system automatically weighs mail trays, assigns them to a flight, and prints and applies a dispatch and routing label.	Each of the 222 systems will save an average of 2,600 work hours per year.
Robotics Containerization System	This system takes mail off the conveyor and automatically sorts and loads mail trays into dispatch containers.	Each of these systems will save an average of 8,134 work hours per year.
Semi-Automatic Scan Where You Band Device	This device provides a semi-automated means for weighing, scanning, and assigning all types of mail to airline flights.	This equipment will save an average of 1,900 work hours per year.

How to Read our Annual Report

Do you have four minutes? That's all the time you need to take a quick tour through our annual report and learn a lot about the Postal Service. We think that you'll not only have fun, but you'll also see just how important our message is.

After enjoying the pictures and illustrations, be sure to read Bill Henderson's letter. His letter will help you understand the challenges we face and the strategy he has put in place to fulfill our mandate to bind the nation together in the future. Next, take a quick look at either the Financial Highlights (page 2) or the Financial History (page 74). These pages will give you an idea of where we've been and suggest where we're headed.

Now, if you want to learn more, follow the guide below and examine our financial statements. Don't worry, you don't have to be a financial whiz. It's as easy as one, two, three. . . .

1 Statements of Operations

Operating revenue: Increased for the fifth straight year.

Total expenses: Held to increases of 5% or less for the past five years.

Interest and investment income: For the fifth straight year we've reduced our income in this category because we manage our cash more effectively and invest in plant and equipment so we can reduce costs, increase efficiency, and improve service.

Interest expense on borrowings: We reduced this expense 57% over the last three years by using the cash we generate from our operations instead of borrowing to make the investments we need to make.

Net income: For the fifth straight year we had positive net income.

2 Balance Sheets

Cash and cash equivalents: We think its better to work an asset than park it in a bank.

Workers' compensation costs: Any increase in these costs affects our bottom line, and this year we had an increase of less than one-half of one percent.

Total net capital deficiency: A decrease of 45% since 1998 and a decrease of 67% since 1997.

Total property and equipment: We increased our investments in property and equipment 9.9% over 1998.

Deferred retirement costs: This asset and the offsetting amounts payable for deferred retirement benefits are best explained in Note 2 to the Financial Statements.

3 Statements of Changes in Net Capital Deficiency

Capital Contributions of U.S. Government: The Federal government has invested $3.034 billion in the Postal System.

Accumulated Losses Since Reorganization: Since 1994, we've reduced our cumulative losses from $8.995 billion to $3.481 billion.

Total Net Capital Deficiency: Since 1994, we've reduced our negative equity to $447 million.

4 Statements of Cash Flows

Net cash provided by operating activities: For the last five years we've been generating most of the cash we need to make investments for the future.

Purchase of property and equipment: Over the last five years we've been increasing our investments in plant and equipment so we can serve our customers better and reduce costs.

Cash flows from financing activities: Over the past five years we have kept borrowing to a minimum reducing debt outstanding over that time.

If you want to learn more about us (and we hope you do), you should read our Management Discussion and Analysis and our Notes to the Financial Statements, which contain important information on our financial condition and plans for the future. And to make it easy for you to read these sections, we've written them in plain English so you don't have to be a lawyer or an accountant to understand them.

Finally, we suggest that you compare us to other companies. Since many companies publish their annual reports on the World Wide Web, you can find a number of reports to which you can compare ours. And to help you read these reports, you can find a guide to reading annual reports on the IBM Website at www.ibm.com/FinancialGuide.

Statements of Operations

(dollars in millions)	**1999**	Years ended September 30, 1998	1997
Operating revenue—Note 8	**$62,726**	$60,072	$58,216
Operating expenses:			
Compensation and benefits—Notes 2, 6, and 7	**47,322**	45,588	43,835
Transportation	**4,267**	4,207	4,026
Other	**9,042**	7,983	7,012
Total operating expenses	**60,631**	57,778	54,873
Income from operations	**2,095**	2,294	3,343
POD workers' compensation expense—Note 3	**(11)**	(8)	(258)
Interest and investment income	**29**	44	115
Interest expense on deferred retirement liabilities—Note 6	**(1,592)**	(1,597)	(1,597)
Interest expense on borrowings	**(158)**	(167)	(307)
Imputed interest on OBRA 1993 retroactive assessment for employee benefits—Note 4	**—**	(16)	(32)
Net Income	**$ 363**	$ 550	$ 1,264

See accompanying notes to financial statements.

Balance Sheets

(dollars in millions)	September 30, 1999	1998
Assets		
Current assets:		
Cash and cash equivalents	**$ 15**	$ 395
Receivables:		
Foreign countries	**337**	514
U.S. government	**149**	154
Consignment	**58**	51
Other	**147**	154
	691	873
Less allowances	**113**	88
Total receivables, net	**578**	785
Supplies, advances and prepayments	**387**	348
Total current assets	**980**	1,528
Other assets, principally revenue forgone appropriations receivable—Note 8	**376**	379
Property and equipment, at cost:		
Buildings	**16,513**	15,123
Equipment	**12,421**	11,179
Land	**2,407**	2,286
Leasehold improvements	**1,019**	916
	32,360	29,504
Less allowances for depreciation and amortization	**12,143**	10,785
	20,217	18,719
Construction in progress	**2,623**	2,073
Total property and equipment, net	**22,840**	20,792
Deferred retirement costs—Note 6	**31,497**	31,844
Total Assets	**$55,693**	$54,543

See accompanying notes to financial statements.

(dollars in millions)	September 30, 1999	1998
Liabilities and Net Capital Deficiency		
Current liabilities:		
Compensation and benefits	**$ 5,919**	$ 5,290
Estimated prepaid postage	**1,628**	1,673
Payables and accrued expenses:		
Foreign countries	**527**	780
U.S. government	**164**	148
Other	**657**	742
Total payables and accrued expenses	**1,348**	1,670
Prepaid box rentals, permit and metered mail	**2,049**	1,955
Outstanding postal money orders	**813**	692
Current portion of debt	**3,363**	3,633
Total current liabilities	**15,120**	14,913
Long-term debt, less current portion—Note 5	**3,554**	2,788
Other liabilities:		
Amounts payable for deferred retirement benefits—Note 6	**29,685**	30,138
Workers' compensation costs—Note 2	**4,901**	4,923
Employees' accumulated leave	**2,041**	1,959
Other	**839**	632
Total other liabilities	**37,466**	37,652
Commitments and contingencies—Notes 9 and 11		
Total Liabilities	**56,140**	55,353
Net capital deficiency:		
Capital contributions of the U.S. government	**3,034**	3,034
Deficit since reorganization	**(3,481)**	(3,844)
Total Net Capital Deficiency	**(447)**	(810)
Total Liabilities and Net Capital Deficiency	**$55,693**	$54,543

See accompanying notes to financial statements.

Statements of Changes in Net Capital Deficiency

(dollars in millions)	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Capital Deficiency
	Years ended September 30, 1999, 1998, and 1997		
Balance, September 30, 1996	$3,034	$(5,658)	$(2,624)
Net Income	—	1,264	1,264
Balance, September 30, 1997	3,034	(4,394)	(1,360)
Net Income	—	550	550
Balance, September 30, 1998	3,034	(3,844)	(810)
Net Income	—	363	363
Balance, September 30, 1999	**$3,034**	**$(3,481)**	**$ (447)**

See accompanying notes to financial statements.

Statements of Cash Flows

(dollars in millions)	1999	1998	1997
		Years ended September 30,	
Cash flows from operating activities:			
Net income	**$ 363**	$ 550	$ 1,264
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,795**	1,579	1,673
(Gain) loss on disposals of property and equipment, net	**(55)**	7	19
Decrease (increase) in other assets, principally revenue forgone appropriations receivable	**3**	(7)	(18)
Increase (decrease) in USPS workers' compensation	**19**	195	(332)
(Decrease) increase in Post Office Department workers' compensation	**(21)**	(27)	258
Decrease in retroactive assessments payable to the U.S. government	**—**	(331)	(315)
Increase in employees' accumulated leave	**82**	101	236
Increase in other liabilities	**207**	143	46
Changes in current assets and liabilities:			
Decrease (increase) in receivables, net	**207**	(113)	55
(Increase) decrease in supplies, advances and prepayments	**(39)**	40	22
Increase in compensation and benefits	**503**	451	128
(Decrease) increase in estimated prepaid postage	**(45)**	(70)	20
Decrease in payables and accrued expenses	**(322)**	(154)	(1)
Increase in prepaid box rentals, permit and metered mail	**94**	31	332
Increase (decrease) in outstanding postal money orders	**121**	52	(40)
Net cash provided by operating activities	**2,912**	2,447	3,347
Cash flows from investing activities:			
Purchase of U.S. government securities, available-for-sale	**—**	(620)	(300)
Proceeds from sale of U.S. government securities, available-for-sale	**—**	622	300
Purchase of property and equipment	**(3,917)**	(3,055)	(3,233)
Proceeds from sale of property and equipment	**129**	49	26
Net cash used in investing activities	**(3,788)**	(3,004)	(3,207)
Cash flows from financing activities:			
Issuance of debt	**4,129**	5,696	1,964
Payments on debt	**(3,633)**	(5,147)	(2,011)
Net cash provided by (used in) financing activities	**496**	549	(47)
Net (decrease) increase in cash and cash equivalents	**(380)**	(8)	93
Cash and cash equivalents at beginning of year	**395**	403	310
Cash and cash equivalents at end of year	**$ 15**	$ 395	$ 403

See accompanying notes to financial statements.

1 Description of Business

Nature of Operations

The United States Postal Service (Postal Service) provides mail service to the public, offering a variety of classes of mail services without discrimination among its many customers. This means that within each class of mail our price does not vary by customer for the levels of service we provide. This fulfills our legal mandate to offer universal services at a fair price. Our primary lines of business are First Class Mail, Standard Mail (A) and Priority Mail. The principal markets for these services are the communications, distribution and delivery, advertising and retail markets. Our products are distributed through our more than 38,000 post offices and a large network of consignees. As in the past, we continue to conduct our significant operations primarily in the domestic market, with our international operations representing less than 3% of our total revenue.

Our labor force is primarily represented by the American Postal Workers Union, National Association of Letter Carriers, National Postal Mail Handlers Union and National Rural Letter Carriers Association (NRLCA). Almost 90% of our career employees are covered by collective bargaining agreements. Three of our largest contracts representing 82% of our career employees expired November 20, 1998. New contracts were signed that expire in 2000 and 2001. The contract for the NRLCA that represents 7% of our career employees expires on November 20, 1999.

Postal Reorganization

The Postal Service commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act (the Act). The equity that the U.S. government held in the former Post Office Department became the initial capital of the Postal Service. The Postal Service valued the assets of the former Post Office Department at original cost less accumulated depreciation. The U.S. government remained responsible for all the liabilities attributable to operations of the former Post Office Department.

The Balanced Budget Act of 1997 charged the Postal Service with certain liabilities attributable to operations of the former Post Office Department for the first time since postal reorganization. Our 1997 financial statements contained a $258 million reduction to net income as a result with additional expenses of $11 million in 1999 and $8 million in 1998 (note 3).

Price Setting Process

Since 1971, the Act has required the Postal Service to establish prices that cover the costs of operating the postal system. The Act established the independent Postal Rate Commission with oversight responsibility for mail prices, subject to approval by the Governors of the Postal Service. The Act provides for the recovery of operating losses through future rate increases.

2 Summary of Significant Accounting Policies

Basis of Accounting and Use of Estimates

We maintain our accounting records and prepare our financial statements on the accrual basis of accounting. This basis conforms to generally accepted accounting principles. Following these principles, we made estimates and assumptions that affect the amounts we report in the financial statements and notes. Actual results may differ from our estimates.

Cash Equivalents

Cash equivalents are securities that mature within 90 days or less from the date we buy them.

Current Values of Financial Instruments

We report the current value of our investments in non-marketable U.S. government securities based on the current value of equivalent marketable U.S. government securities. The current value of our debt is what it would cost us to pay off the debt if we used the current yield on equivalent U.S. Treasury debt.

Supplies, Advances & Prepayments

Supplies, advances and prepayments are primarily composed of our inventories of supplies, motor vehicle parts, repairable parts for mail processing equipment, and advances to employees for annual leave. We value our inventories at the lower of average cost or current market price. Total inventories amounted to $172 million at the end of 1999 and $158 million at the end of 1998.

Property and Equipment

We record property and equipment at what it costs us to acquire the assets, including the interest we pay on the money we borrow to pay for the construction of major capital additions. This interest amounted to $59 million in 1999, $44 million in 1998 and $22 million in 1997.

We depreciate buildings and equipment over their estimated useful lives, which range from 3 to 40 years, using the straight-line method. We amortize leasehold improvements over the period of the lease or the useful life of the improvement, whichever time is shorter.

During 1997 we changed our policy for expensing minor asset purchases. We increased the limit from $2,000 to $3,000. As a result, we expensed $83 million of assets in 1997 that were under the new limit.

Estimated Prepaid Postage

This is the amount of cash we estimate that we collected by the end of the year for services that we will perform in the following year.

Compensation and Benefits Payable

This is the salaries and benefits we owe to current and retired employees, including the amounts employees have earned but have not yet been paid, current workers' compensation, unemployment costs, health benefits, and the current portion of the amounts payable for retirement benefits.

Deferred Retirement Benefits

This is the present value of our estimated legal obligation to the Civil Service Retirement and Disability Fund for the amount of retirement benefits payable in the future for our current employees' retirement and our present retirees and

their survivors. The present value of our benefits payable for our current employees increases when management increases basic pay. The present value of our benefits payable also increases when Cost of Living Adjustments (COLAs) are granted to our retirees or their survivors. We capitalize as deferred retirement costs the amounts due and payable in future years. We expense and pay these costs over periods of 30 years for amounts attributable to current employees and 15 years for amounts attributable to retirees, at 5% interest. We account for our participation in the U.S. government sponsored retirement plans as participation in a multiemployer plan arrangement.

Post-Retirement Health Benefits

Retiree health benefits costs are our obligation to pay a portion of the health insurance premiums of those retirees and their survivors who participate in the Federal Employees Health Benefits Program (FEHBP). We account for our participation in FEHBP as participation in a multiemployer plan arrangement. Therefore, we expense the costs of our retiree health benefits as we incur them.

We pay a portion of the health insurance premiums of retirees and their survivors who participate in the Federal Employees Health Benefits Program.

Workers' Compensation Costs

We are self-insured for workers' compensation costs under a program administered by the Department of Labor (DOL). We record these costs, which include the employees' medical expenses and payment for continuation of wages, as an operating expense. At the end of the year, our liability represents our estimated present value of the total amounts we expect to pay for outstanding claims. We base our estimate of the total costs of a claim upon the severity of the injury, the age of the injured employee, the assumed life expectancy of the employee, the trend of our experience with such an injury, and other factors. In our calculation of present value, we use a net discount rate of 1.4% for medical expenses and 3.0% for compensation claims.

In fiscal year 1999, management adopted a change in the net discount rate used in determining the present value of estimated future workers' compensation payments for medical claims. The net discount rate for medical claims was changed from 0.1% to 1.4%. The effect of the adoption of this rate has been accounted for as a change in accounting estimate. It resulted in a decrease of $131 million in the fiscal year 1999 compensation and benefits expense. In management's opinion, this net discount rate better reflects the excess of rates of return on government debt instruments of comparable terms relative to expected future medical inflation.

At the end of 1999, we estimate our total liability for future workers' compensation costs, excluding Post Office Department (POD) liability (Note 3), at $5,306 million. At the end of 1998, this liability was $5,287 million. In 1999, we recorded $603 million in workers' compensation expense, compared to the $760 million we recorded in 1998 and the $206 million we recorded in 1997.

Research and Development Costs

We record research and development costs as expenses when we incur them. These costs were $67 million in 1999, $77 million in 1998 and $68 million in 1997.

Advertising

We record advertising costs as expenses when we incur them. These costs were $241 million in 1999, $301 million in 1998 and $266 million in 1997.

3 Balanced Budget Act of 1997

Under the Postal Reorganization Act of 1971, the U.S. government remained responsible for payment of all Post Office Department (POD) workers' compensation claims incurred before July 1, 1971. This Act required that the newly created USPS would be responsible only for its own workers' compensation claims. However, under the Balanced Budget Act of 1997, the remaining liability for these POD costs has now been transferred to the U.S. Postal Service. We estimate the present value of these claims was $210 million at the end of 1999. At the end of 1998, this liability was $231 million. In 1999, we recorded an expense of $11 million, compared to the $8 million we recorded in 1998 and the $258 million we recorded in 1997. In our calculation we use a net discount rate of 3%.

4 Retroactive Assessments for Employee Benefits

Omnibus Budget Reconciliation Act of 1993

Under the Omnibus Budget Reconciliation Act of 1993, we were required to pay 5% interest on the $2.14 billion retroactive assessment from the Omnibus Budget Reconciliation Act of 1990. We paid this interest in three equal annual installments of $347 million during 1996, 1997 and 1998, totaling $1.041 billion.

5 Debt and Related Interest Costs

Under the Postal Reorganization Act, as amended by Public Law 101-227, we can issue debt obligations. However, we are limited to net annual increases of $2 billion in our debt for capital improvements and to $1 billion for operating expenses. Our total debt cannot exceed $15 billion.

Debt is due as follows (dollars in millions):

Year	Amount
2000	$3,363
2001	52
2002	1
2003	200
2004	—
After 2004	3,301

We paid in cash $202 million in interest in 1999, $236 million in interest in 1998 and $336 million in 1997.

The current estimated market value of our debt is $6,877 million in 1999 and $6,639 million in 1998 (Note 2). All notes payable to the Federal Financing Bank (FFB) may be repurchased at current value at any time with five days notice of intent to do so.

The following page details our debt, which consists of Notes Payable to the FFB and Mortgage Notes Payable:

Our Debt Consists of the Following
(dollars in millions):

Interest Rate %	Terms *	September 30, 1999	1998
Notes payable to the Federal Financing Bank (FFB):			
8.075	Payable $32 million each year to May 31, 2000	**$ 32**	$ 64
7.800	Payable $15 million each year to May 31, 2001	**30**	45
8.761**	Payable $36 million May 31, 1999 and each May 31 thereafter through May 31, 2001	**72**	108
6.274	Payable May 16, 2005	**500**	500
5.002***	Overnight revolving credit facility; final maturity date September 30, 2000	**279**	246
4.667	Payable November 15, 2026; repurchasable at par November 16, 1998 and every February 15, May 15, and August 15 thereafter	**—**	600
5.084	Payable March 30, 2000	**500**	—
4.977	Payable March 31, 2034; repurchasable at par December 31, 1999 and every March 31, June 30, September 30, and December 31 thereafter	**750**	—
4.971****	Short-term revolving credit facility; final maturity date September 30, 2000	**2,500**	2,700
5.568	Payable December 31, 2002	**200**	200
5.688	Payable August 15, 2007	**400**	400
5.546	Payable August 15, 2007	**150**	150
5.959	Payable November 15, 2027	**400**	400
5.726	Payable November 15, 2027	**100**	100
5.606	Payable November 15, 2027	**300**	300
5.426	Payable May 15, 2008	**200**	200
4.981	Payable May 15, 2008	**200**	200
4.910	Payable May 15, 2008	**200**	200
4.836	Payable November 15, 2027	**100**	—
		6,913	6,413
Mortgage Notes Payable:			
6.00 to 9.25	Maturing from fiscal years 2000 through 2039 secured by land, buildings and equipment with a carrying amount of $31 million.	**4**	8
		6,917	6,421
Less current portion of debt		**3,363**	3,633
		$3,554	$2,788

* All debt is repurchasable at any time at a price determined by then current FFB rates.
** Weighted average interest rate; prior year's weighted average interest rate was 8.761%.
*** Prior year rate was 4.491%.
**** Prior year rate was 4.667%.

6 Retirement Programs

With certain exceptions, employees participate in one of the following three retirement programs based upon the starting date of their employment with the Postal Service. Employee and employer contributions are made to the Civil Service Retirement and Disability Fund (CSRDF), which is administered by the Office of Personnel Management. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Postal Service employees are authorized to participate in the Thrift Savings Plan by the Federal Employees Retirement System Act of 1986. The Plan is administered by the Federal Retirement Thrift Investment Board.

Civil Service Retirement System (CSRS)

Under the Postal Reorganization Act, officers and career employees are covered by the Civil Service Retirement System, which provides a basic annuity and Medicare coverage. The CSRS fund covers substantially all employees hired prior to January 1, 1984. Effective January 1, 1999, participating employees contribute 7.25% of their basic pay to the CSRDF. Prior to January 1, 1999, participating employees contributed 7% of their basic pay. We contribute an amount equal to 7% of each employee's basic pay to the CSRDF. We and the employee also contribute to Medicare at the rate prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS.

Dual Civil Service Retirement System (Dual CSRS)/Social Security System

Employees with prior U.S. government service who were hired between January 1, 1984 and January 1, 1987 are covered by the Dual Civil Service Retirement System/Social Security System. We contribute 7% of the employee's basic pay to the CSRDF. Effective January 1, 1999, participating employees contribute 1.05% of their basic pay. Prior to January 1, 1999, participating employees contributed 0.8% of their basic pay. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the Dual System.

Federal Employees Retirement System (FERS)

Effective January 1, 1987, officers and career employees hired since December 31, 1983, except for those covered by the Dual System, are covered by the Federal Employees Retirement System Act of 1986. In addition, employees hired before January 1, 1984 could choose during certain periods in 1987, 1988 and 1998 to participate in the FERS. This System consists of Social Security, a basic annuity plan, and a Thrift Savings Plan.

We contributed to the basic annuity plan 10.7% of each employee's basic pay in 1999 and 1998 and 11.4% in 1997. Effective January 1, 1999, participating employees contribute 1.05% of their basic pay. Prior to January 1, 1999, participating employees contributed 0.8% of their basic pay. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. In addition, we are required to contribute to the Thrift Savings Plan a minimum of 1% per year of the basic pay of employees covered by this System. We also match a voluntary employee contribution up to 3% of the employee's basic pay, and 50% of a contribution between 3 and 5% of basic pay.

The number of employees enrolled in each of the retirement plans at the end of 1999, 1998 and 1997 is as follows:

	1999*	1998	1997
CSRS	**281,062**	298,827	314,068
Dual CSRS/ Social Security	**12,598**	13,418	13,900
FERS	**503,233**	479,069	436,735

* From July 1998 to December 1998 workers covered by CSRS were allowed to switch to FERS. During this period only 3,436, or less than 1.2%, of our employees chose to change plans.

Deferred Retirement Costs

Deferred retirement costs consist of the following (dollars in millions):

	1999	1998
CSRS basic pay increases	**$25,545**	$25,827
CSRS retirees' and survivors' cost of living adjustments	**5,952**	6,017
Total	**$31,497**	$31,844

There are no deferred retirement costs associated with FERS.

Deferred Retirement Liability—Civil Service Retirement System

When we increase our employees' current basic pay, we are liable for the additional deferred retirement liability. The liability results from the increase in our employees' retirement benefits, which is based on this pay increase. The Office of Personnel Management determines the estimated increase in our deferred liability. We amortize and pay this amount in 30 equal annual installments, which includes interest computed at a rate of 5% per year. We make the first payment at the end of the year in which employees receive their pay increase.

The increase in our deferred liability for retirement benefits under the CSRS as a result of basic pay increases was $930 million in 1999, $836 million in 1998 and $560 million in 1997.

Deferred Retirement Liability—Retirees' and their Survivors' Cost of Living Adjustments (COLAs)

Congress determines the COLAs granted to our retirees. Under the Omnibus Budget Reconciliation Act of 1990, we are liable for our share of the cost of living adjustments granted to those retirees, and their survivors, retiring on or after July 1, 1971. We are not responsible for any costs due to Federal civilian service before that date.

Each year the Office of Personnel Management determines the estimated increase in our liability under this law for the current year. We amortize and pay each year's amount in 15 equal annual installments, which include interest computed at a rate of 5% per year.

The increase in our deferred liability for our retirees' COLAs was $537 million in 1999, $790 million in 1998 and $1,041 million in 1997.

Future Minimum Payments

We estimate the future minimum payments we have to make in order to fund CSRS benefits and retirees cost of living adjustments as of September 30, 1999, are as follows (dollars in millions):

Year	Amount
2000	$ 3,399
2001	3,381
2002	3,310
2003	3,231
2004	3,110
After 2004	31,331
	47,762
Less amount representing interest	16,255
Total future minimum payments	31,507
Less: Portion classified as a current liability in compensation and benefits	1,822
Long-term portion of future minimum payments	$29,685

Expense Components

Listed below are the components of our total retirement expenses that are included in our compensation and benefits expense and related interest expense in the Statement of Operations for 1999, 1998 and 1997 (dollars in millions):

	1999	1998	1997
CSRS	**$ 816**	$ 849	$ 870
FERS	**1,824**	1,640	1,590
FERS—Thrift Savings Plan	**681**	608	552
Dual CSRS/ Social Security	**35**	36	36
Social Security	**1,337**	1,241	1,162
Amortization of deferred cost:			
CSRS	**1,214**	1,142	1,064
Annuitant COLAs	**602**	569	552
Interest expense on deferred liabilities	**1,592**	1,597	1,597
Imputed interest on OBRA '93	**—**	16	32
Total retirement expense	**$8,101**	$7,698	$7,455

Employer cash contributions to retirement plans were $6,756 million in 1999, $6,647 million in 1998, and $6,481 million in 1997. These amounts do not include Social Security and Medicare contributions.

7 Post-Retirement Health Benefit Programs

Employees of the Postal Service who participate in the Federal Employees Health Benefits Program (FEHBP) for at least the five years immediately before their retirement may participate in the FEHBP during their retirement. Under the FEHBP, we pay a portion of the health insurance premiums of participating retirees and their survivors. This program is administered by the Office of Personnel Management.

The Omnibus Budget Reconciliation Act of 1990 requires us to pay the employer's share of health insurance premiums for all employees, and their survivors, who participate in the FEHBP and who retire on or after July 1, 1971. However, we do not include the costs attributable to Federal civilian service before that date. Our FEHBP costs amounted to $593 million in 1999, $581 million in 1998 and $548 million in 1997. We include these costs in our compensation and benefits expense.

8 Revenue Forgone

Our operating revenue includes accruals for revenue forgone. Revenue is forgone when Congress mandates that we provide free or reduced mail rates for certain mailers. The difference between the price Congress has mandated and the price we would have charged the mailer determines the amount of forgone revenue. Congress appropriates money to reimburse us for only a portion of the revenue forgone that we have incurred in past years. In our operating revenue, we have included as revenue the amounts appropriated by Congress for revenue forgone of $71 million for 1999, $67 million for 1998, and $83 million for 1997. Legislation that was passed during 1999 appropriated the $71 million for 1999 but delayed the payment until fiscal year 2000. Accordingly, we have recorded this as a receivable in 1999.

Under the Revenue Forgone Reform Act of 1993, Congress is required to reimburse us $29 million annually through 2035 (42 years). This reimbursement is for two purposes: services we performed in 1991, 1992 and 1993 for which we have not yet been paid; and for shortfalls in the reimbursement for the costs we incurred for processing and delivering certain nonprofit mail from 1994 through 1998.

The Revenue Forgone Reform Act of 1993 authorized a total of $1.218 billion in payments. We calculated the present value of these future reimbursements to be approximately $390 million at 7% interest. We recognized the $390 million as revenue during fiscal years 1991 through 1998. The amounts receivable as of September 30, 1999 and 1998 were $378 million and $380 million, respectively. We recognized no revenue in 1999, $10 million in 1998 and $22 million in 1997.

9 Commitments

At September 30, 1999, we estimate our financial commitment for approved Postal Service capital projects in progress to be approximately $3,799 million.

Our total rental expense for the years ended September 30 is summarized as follows (dollars in millions):

	1999	1998	1997
Non-cancelable real estate leases including related taxes	**$ 766**	$711	$659
Facilities leased from General Services Administration subject to 120-day notice of cancellation	**36**	37	34
Equipment and other short-term rentals	**431**	234	154
Total	**$1,233**	$982	$847

At September 30, 1999, our future minimum lease payments for all non-cancelable leases are as follows (dollars in millions):

Year	Operating	Capital
2000	$ 743	$ 68
2001	694	68
2002	644	68
2003	597	68
2004	559	68
After 2004	5,284	439
	$8,521	$779
Less: Interest at 5.5%		202
Total capital lease obligations		577
Less: Short-term portion of capital lease obligations		37
Long-term portion of capital lease obligations		$540

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain non-cancelable real estate leases give us the option to purchase the facilities at prices specified in the leases.

Capital leases included in buildings were $663 million in 1999 and $449 million in 1998. Total accumulated amortization is $122 million in 1999 and $86 million in 1998. Amortization expense for assets recorded under capital leases is included in depreciation expense.

10 Impaired Assets

In 1997, we began to record losses on long-lived assets when events and circumstances indicate that the assets might be impaired. In accordance with FASB Statement No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of," we have written down our impaired assets to the lower of cost or fair value. We have identified several properties that qualify due to either obsolescence or earthquake damage. We recorded impairment losses of $12 million in 1999 and $57 million in 1997. These losses are included in other operating expenses in the statements of operations. No material impairments were recorded in 1998.

11 Contingent Liabilities

Each quarter we review litigation pending against us. As a result of this review, we classify and adjust our contingencies for claims that we think it is probable that we will lose and for which we can reasonably estimate the amount of the unfavorable outcome. These claims cover labor, equal employment opportunity, environmental issues, traffic accidents, injuries on postal properties, personal claims and property damages, and suits and claims arising from postal contracts. We also recognize the settlement of claims and lawsuits and revisions of other estimates.

As a part of our continuing evaluation of estimates required in the preparation of our financial statements, we recorded approximately a $104 million increase in liabilities in 1999 to recognize increases in the estimated cost of litigation and claims asserted prior to 1999. We recognized settlement of claims and lawsuits and revised other estimates in our changes in contingent liabilities. Management and General Counsel believe that we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

12 Year 2000 Disclosure (Unaudited)

Since our major Year 2000 efforts began, we have operated from the premise that the Year 2000 problem while technical in origin, represents a business problem, not a technology problem. This problem stems from the practice of using only the last two digits of a year in many computer programs. When the year changes from 1999 to 2000, the two-digit representation "00" may not be recognized by some systems causing errors ranging from simple miscalculation to a complete computer shutdown. Our objective is to limit the impact on our customers, employees, and business.

Our Year 2000 preparation program involves three distinct elements: remediation, business continuity and contingency planning, and recovery management. We completed the remediation, or fixing, of our mission-critical systems, including both mail-processing equipment and business applications.

Since we interact with a wide range of suppliers and business partners, we completed the development of a broad spectrum of continuity plans in case our critical business process is interrupted externally. In addition, our Supplier Management Office has performed in-depth assessments of the ability of our key national and local suppliers to provide us with necessary products and services into 2000. We also completed the development of contingency plans or "workarounds" in case any element of our internal critical systems and some non-critical supporting systems fail. For both types of plans, we conducted tests and rehearsals. This included tests of our electronic interfaces with our customers and business partners, as well as the readiness of our safety, security, and other building systems at more than 4,000 of our key facilities.

The final element of our program, recovery management, builds on our extensive experience in moving the mail through such impediments as severe weather conditions and natural disasters. We established and tested a well-defined communication structure to handle any problems that may occur. So far, we have spent $385 million, and the total cost is expected to be between $450 and $500 million for upgrading our systems and preparing for Year 2000 readiness. We believe we will be ready. We also believe that our extensive preparation by thousands of dedicated personnel prepares us for unforeseen Year 2000 problems and limits the consequences to minor effects on administrative or financial systems or limited impacts on our ability to deliver the mail.

Audit Committee Chairman's Letter

The Chairman of the Board of Governors selects the members of the Audit Committee. During 1999, the Committee, consisting of Governors Daniels, Winters and myself met six times in conjunction with the regularly scheduled monthly Board meetings.

The Audit Committee is responsible, on behalf of the Board of Governors, for reviewing the financial reporting process, ensuring the soundness of the accounting and control practices, and the integrity of the financial statements of the Postal Service.

The Committee recommends to the Board, subject to its approval, the selection of the independent accounting firm responsible for the external audit as well as oversees compliance with the terms of the audit contract. During the year the Board, upon the recommendation of the Committee, designated the Inspector General the co-Contracting Officer Representative, along with the Vice President, Controller, for the external audit contract and approved a one-year extension of the contract through the 2001 audit.

During 1999, the Committee reviewed the Board's Audit Charter and recommended no changes at this time. As a part of its responsibilities, the Committee also reviewed other related postal issues as appropriate. Two specific issues received special attention at each meeting: the Year 2000 (Y2K) initiative and the status of management's actions on the Office of Inspector General audit recommendations.

With regard to the financial statement audit for 1999, the Committee, at the start of the audit process, discussed the overall scope of work and the respective audit plans with the external auditors, Ernst & Young LLP, the Office of the Inspector General and the Postal Inspection Service. We also met regularly with them as well as management and the General Counsel jointly and independently to discuss the progress of the audit work. This included an evaluation of the organization's internal controls and the quality of the financial reporting process. This provided the opportunity for the Committee to assess the coordination of the audit work and ensure independence and objectivity in the respective internal and external audit programs.

Accordingly, the Committee recommended and the full Board in its deliberations approved the financial statements for 1999.

Ned R. McWherter

Ned R. McWherter
Chairman, Audit Committee
December 7, 1999

Report of Independent Auditors

Board of Governors
United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1999 and 1998, and the related statements of operations, changes in net capital deficiency and cash flows for each of the three years in the period ended September 30, 1999. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 1999, on our consideration of the United States Postal Service's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Ernst + Young LLP

Washington, D.C.
November 9, 1999

Historical Perspective

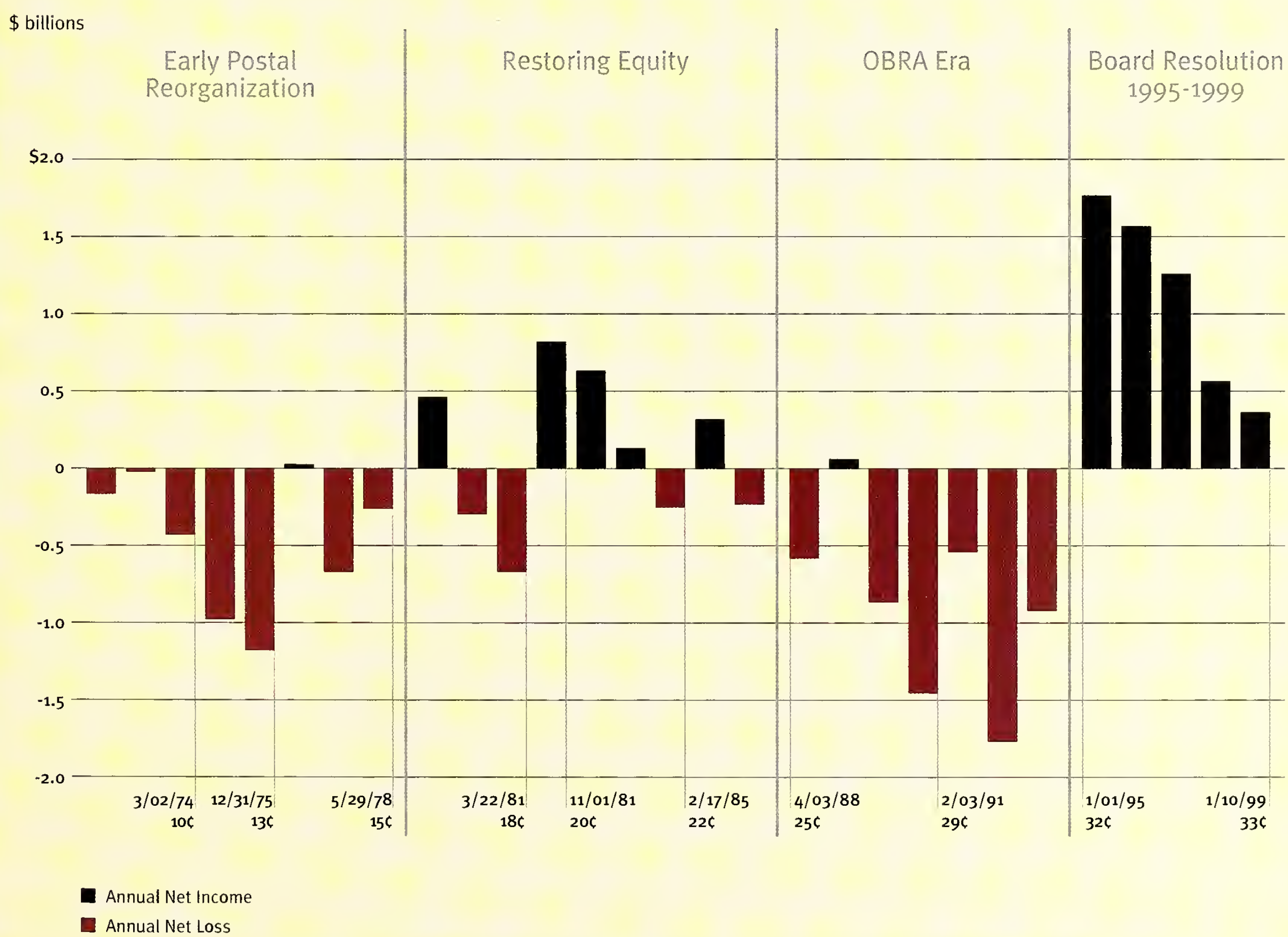
29-Year Net Income

Where did all the net income go? We may have been in the "black" for the past five years, but since the Post Office Department's 1971 reorganization the United States Postal Service has been in the "red" more often, totaling losses of $11.4 billion versus gains of $7.9 billion.

The Postal Service stopped receiving subsidies from Congress in 1982. However, the Postal Service's current financial position was greatly impacted by the 1990 Omnibus Budget Reconciliation Act (OBRA) legislation that made the USPS responsible for all health benefits and COLAs for its retirees since July 1, 1971. To date we have paid Congress approximately $14.9 billion.

At the beginning of 1995, the Postal Service had accumulated almost $9 billion in net losses since being established in 1971. In keeping with the intent of the legislation that created the Postal Service and mandated that revenues cover costs, the Postal Service Board of Governors adopted a resolution in July 1995 to restore the organization's equity by recovering these losses. The total net income of $5.5 billion earned during the five-year period from 1995-1999 has enabled the Postal Service to recover more than half of the prior years' losses. This remarkable financial turn around was accomplished with a below-inflation rate increase, rising mail volume and a moderate increase in expenses.

The Postal Service still has $3.5 billion in prior years' losses.



Financial History Summary

	1999	1998	1997
Statements of Operations			
(dollars in billions)			
Total revenue	**$ 62.7**	$ 60.1	$ 58.3
Total expense	**62.4**	59.5	57.0
Net income (loss)	**$ 0.4**	$ 0.6	$ 1.3
(dollars in millions)			
Operating revenue	**$62,655**	$60,005	$58,133
Revenue forgone appropriation	**71**	67	83
Total operating revenue	**62,726**	60,072	58,216
Compensation and benefits	**47,322**	45,588	43,835
Restructuring costs	**—**	—	—
Other expenses	**13,309**	12,190	11,038
Total operating expenses	**60,631**	57,778	54,873
Income from operations	**2,095**	2,294	3,343
Interest and investment income	**29**	44	115
Interest expense on deferred retirement liabilities	**(1,592)**	(1,597)	(1,597)
Imputed interest on retroactive assessment for employee benefits	**—**	(16)	(32)
POD workers' compensation expense	**(11)**	(8)	(258)
Interest expense on borrowings	**(158)**	(167)	(307)
Income (loss) before retroactive assessments and extraordinary items	**363**	550	1,264
Retroactive assessments for employee benefits**	**—**	—	—
Income (loss) before extraordinary item	**363**	550	1,264
Extraordinary item—debt refinancing premium	**—**	—	—
Net income (loss)	**$ 363**	$ 550	$ 1,264
Balance Sheets			
Assets			
Current assets	**$ 980**	$ 1,528	$ 1,463
Property and equipment, deferred retirement costs and other assets	**54,713**	53,015	51,675
Total assets	**$55,693**	$54,543	$53,138
Liabilities			
Current liabilities	**$15,120**	$14,913	$13,834
Other liabilities	**37,466**	37,652	37,439
Long-term debt	**3,554**	2,788	3,225
(Net capital deficiency)/equity	**(447)**	(810)	(1,360)
Total liabilities and (net capital deficiency)/equity	**$55,693**	$54,543	$53,138
Changes in (Net Capital Deficiency)/Equity			
Beginning balances			
Capital contributions of the U.S. government	**$ 3,034**	$ 3,034	$ 3,034
Deficit since reorganization	**(3,844)**	(4,394)	(5,658)
Total beginning balance (net capital deficiency)/equity	**(810)**	(1,360)	(2,624)
Net income (loss)	**363**	550	1,264
Ending balance***	**$ (447)**	$ (810)	$ (1,360)

* Certain reclassifications have been made to previously reported amounts.
** Relates to OBRA 1990 and 1993.
*** Some totals may not add exactly due to rounding.

1996*	1995*	1994*	1993*	1992*	1991*	1990*	1989*
$ 56.6	$ 54.5	$ 49.6	$ 48.0	$ 47.1	$ 44.2	$ 40.1	$ 38.9
55.0	52.7	50.5	49.8	47.6	45.7	41.0	38.8
$ 1.6	$ 1.8	$ (0.9)	$ (1.8)	$ (0.5)	$ (1.5)	$ (0.9)	$ 0.1
$56,309	$54,176	$49,252	$47,418	$46,151	$43,323	$39,202	$37,979
93	117	131	164	545	562	453	436
56,402	54,293	49,383	47,582	46,696	43,885	39,655	38,415
42,676	41,931	39,609	38,448	37,122	34,904	33,158	31,349
—	—	—	129	1,010	—	—	—
10,437	8,799	8,846	7,745	7,521	7,215	6,276	6,002
53,113	50,730	48,455	46,322	45,653	42,119	39,434	37,351
3,289	3,563	928	1,260	1,043	1,766	221	1,064
142	216	193	404	409	318	419	505
(1,449)	(1,364)	(1,336)	(1,346)	(1,269)	(1,172)	(1,056)	(1,020)
(47)	(79)	(97)	(70)	(81)	(91)	—	—
—	—	—	—	—	—	—	—
(368)	(566)	(601)	(620)	(638)	(480)	(458)	(488)
1,567	1,770	(913)	(372)	(536)	341	(874)	61
—	—	—	(857)	—	(1,810)	—	—
1,567	1,770	(913)	(1,229)	(536)	(1,469)	(874)	61
—	—	—	(536)	—	—	—	—
$ 1,567	$ 1,770	$ (913)	$ (1,765)	$ (536)	$ (1,469)	$ (874)	$ 61
$ 1,447	$ 2,775	$ 2,683	$ 4,478	$ 6,027	$ 4,863	$ 4,528	$ 5,448
50,157	46,146	43,733	42,803	41,638	38,403	32,977	31,324
$51,604	$48,921	$46,416	$47,281	$47,665	$43,266	$37,505	$36,772
$12,573	$11,299	$11,665	$10,140	$ 9,484	$ 7,400	$ 6,290	$ 5,898
37,746	34,794	32,985	33,503	32,291	30,474	25,825	25,103
3,909	7,019	7,727	8,686	9,173	8,139	6,668	6,173
(2,624)	(4,191)	(5,961)	(5,048)	(3,283)	(2,747)	(1,278)	(402)
$51,604	$48,921	$46,416	$47,281	$47,665	$43,266	$37,505	$36,772
$ 3,034	$ 3,034	$ 3,034	$ 3,035	$ 3,034	$ 3,034	$ 3,036	$ 3,039
(7,225)	(8,995)	(8,082)	(6,318)	(5,781)	(4,312)	(3,438)	(3,499)
(4,191)	(5,961)	(5,048)	(3,283)	(2,747)	(1,278)	(402)	(460)
1,567	1,770	(913)	(1,765)	(536)	(1,469)	(874)	61
$ (2,624)	$ (4,191)	$ (5,961)	$ (5,048)	$ (3,283)	$ (2,747)	$ (1,278)	$ (402)

Financial History Summary

	1999	1998	1997	1996*	1995*	1994*	1993*	1992*	1991*	1990*	1989*
Statements of Operations											
(dollars in billions)											
Total revenue	**$ 62.7**	$ 60.1	$ 58.3	$ 56.6	$ 54.5	$ 49.6	$ 48.0	$ 47.1	$ 44.2	$ 40.1	$ 38.9
Total expense	**62.4**	59.5	57.0	55.0	52.7	50.5	49.8	47.6	45.7	41.0	38.8
Net income (loss)	**$ 0.4**	$ 0.6	$ 1.3	$ 1.6	$ 1.8	$ (0.9)	$ (1.8)	$ (0.5)	$ (1.5)	$ (0.9)	$ 0.1
(dollars in millions)											
Operating revenue	**$62,655**	$60,005	$58,133	$56,309	$54,176	$49,252	$47,418	$46,151	$43,323	$39,202	$37,979
Revenue forgone appropriation	**71**	67	83	93	117	131	164	545	562	453	436
Total operating revenue	**62,726**	60,072	58,216	56,402	54,293	49,383	47,582	46,696	43,885	39,655	38,415
Compensation and benefits	**47,322**	45,588	43,835	42,676	41,931	39,609	38,448	37,122	34,904	33,158	31,349
Restructuring costs	**—**	—	—	—	—	—	129	1,010	—	—	—
Other expenses	**13,309**	12,190	11,038	10,437	8,799	8,846	7,745	7,521	7,215	6,276	6,002
Total operating expenses	**60,631**	57,778	54,873	53,113	50,730	48,455	46,322	45,653	42,119	39,434	37,351
Income from operations	**2,095**	2,294	3,343	3,289	3,563	928	1,260	1,043	1,766	221	1,064
Interest and investment income	**29**	44	115	142	216	193	404	409	318	419	505
Interest expense on deferred retirement liabilities	**(1,592)**	(1,597)	(1,597)	(1,449)	(1,364)	(1,336)	(1,346)	(1,269)	(1,172)	(1,056)	(1,020)
Imputed interest on retroactive assessment for employee benefits	**—**	(16)	(32)	(47)	(79)	(97)	(70)	(81)	(91)	—	—
POD workers' compensation expense	**(11)**	(8)	(258)	—	—	—	—	—	—	—	—
Interest expense on borrowings	**(158)**	(167)	(307)	(368)	(566)	(601)	(620)	(638)	(480)	(458)	(488)
Income (loss) before retroactive assessments and extraordinary items	**363**	550	1,264	1,567	1,770	(913)	(372)	(536)	341	(874)	61
Retroactive assessments for employee benefits**	**—**	—	—	—	—	—	(857)	—	(1,810)	—	—
Income (loss) before extraordinary item	**363**	550	1,264	1,567	1,770	(913)	(1,229)	(536)	(1,469)	(874)	61
Extraordinary item—debt refinancing premium	**—**	—	—	—	—	—	(536)	—	—	—	—
Net income (loss)	**$ 363**	$ 550	$ 1,264	$ 1,567	$ 1,770	$ (913)	$ (1,765)	$ (536)	$ (1,469)	$ (874)	$ 61
Balance Sheets											
Assets											
Current assets	**$ 980**	$ 1,528	$ 1,463	$ 1,447	$ 2,775	$ 2,683	$ 4,478	$ 6,027	$ 4,863	$ 4,528	$ 5,448
Property and equipment, deferred retirement costs and other assets	**54,713**	53,015	51,675	50,157	46,146	43,733	42,803	41,638	38,403	32,977	31,324
Total assets	**$55,693**	$54,543	$53,138	$51,604	$48,921	$46,416	$47,281	$47,665	$43,266	$37,505	$36,772
Liabilities											
Current liabilities	**$15,120**	$14,913	$13,834	$12,573	$11,299	$11,665	$10,140	$ 9,484	$ 7,400	$ 6,290	$ 5,898
Other liabilities	**37,466**	37,652	37,439	37,746	34,794	32,985	33,503	32,291	30,474	25,825	25,103
Long-term debt	**3,554**	2,788	3,225	3,909	7,019	7,727	8,686	9,173	8,139	6,668	6,173
(Net capital deficiency)/equity	**(447)**	(810)	(1,360)	(2,624)	(4,191)	(5,961)	(5,048)	(3,283)	(2,747)	(1,278)	(402)
Total liabilities and (net capital deficiency)/equity	**$55,693**	$54,543	$53,138	$51,604	$48,921	$46,416	$47,281	$47,665	$43,266	$37,505	$36,772
Changes in (Net Capital Deficiency)/Equity											
Beginning balances											
Capital contributions of the U.S. government	**$ 3,034**	$ 3,034	$ 3,034	$ 3,034	$ 3,034	$ 3,034	$ 3,035	$ 3,034	$ 3,034	$ 3,036	$ 3,039
Deficit since reorganization	**(3,844)**	(4,394)	(5,658)	(7,225)	(8,995)	(8,082)	(6,318)	(5,781)	(4,312)	(3,438)	(3,499)
Total beginning balance (net capital deficiency)/equity	**(810)**	(1,360)	(2,624)	(4,191)	(5,961)	(5,048)	(3,283)	(2,747)	(1,278)	(402)	(460)
Net income (loss)	**363**	550	1,264	1,567	1,770	(913)	(1,765)	(536)	(1,469)	(874)	61
Ending balance***	**$ (447)**	$ (810)	$ (1,360)	$ (2,624)	$ (4,191)	$ (5,961)	$ (5,048)	$ (3,283)	$ (2,747)	$ (1,278)	$ (402)

* Certain reclassifications have been made to previously reported amounts.
** Relates to OBRA 1990 and 1993.
*** Some totals may not add exactly due to rounding.

Operating Statistics

(in millions of units indicated)

Mail Revenue	1999	1998*	1997	1996	1995
First-Class Mail					
Pieces, number	**101,936.5**	100,434.2	99,659.9	98,216.1	96,295.9
Weight, pounds	**4,299.9**	4,151.3	4,115.1	4,019.5	3,865.0
Revenue	**$ 34,933.2**	$ 33,861.2	$ 33,397.6	$ 33,116.5	$ 31,955.1
Priority Mail					
Pieces, number	**1,189.5**	1,174.4	1,068.2	937.3	869.0
Weight, pounds	**2,142.6**	1,980.0	1,860.6	1,562.8	1,483.7
Revenue	**$ 4,533.3**	$ 4,187.4	$ 3,856.9	$ 3,321.5	$ 3,074.7
Express Mail					
Pieces, number	**68.7**	66.2	63.6	57.6	56.7
Weight, pounds	**78.3**	77.7	76.3	63.7	62.5
Revenue	**$ 942.0**	$ 854.5	$ 824.7	$ 736.8	$ 710.9
Mailgrams					
Pieces, number	**4.1**	4.3	5.3	4.2	4.5
Revenue	**$ 1.6**	$ 1.7	$ 2.0	$ 1.6	$ 1.5
Periodicals					
Pieces, number	**10,273.8**	10,316.8	10,411.4	10,126.2	10,194.2
Weight, pounds	**4,482.6**	4,451.1	4,338.3	4,132.0	4,210.8
Revenue	**$ 2,115.3**	$ 2,072.3	$ 2,067.5	$ 2,013.9	$ 1,971.9
Standard Mail (A)					
Pieces, number	**85,661.7**	82,508.1	77,253.6	71,686.1	71,112.1
Weight, pounds	**10,648.3**	10,376.8	9,693.9	9,014.4	9,233.9
Revenue	**$ 14,435.8**	$ 13,701.7	$ 12,876.0	$ 12,175.1	$ 11,791.5
Standard Mail (B)					
Pieces, number	**1,043.1**	1,023.4	988.4	948.9	936.2
Weight, pounds	**3,533.2**	3,407.3	2,889.9	2,696.6	2,708.6
Revenue	**$ 1,828.5**	$ 1,754.3	$ 1,627.6	$ 1,524.1	$ 1,524.7
International Surface					
Pieces, number	**103.2**	95.6	97.4	104.5	105.5
Weight, pounds	**96.1**	95.6	102.0	106.5	114.2
Revenue	**$ 193.9**	$ 183.7	$ 192.0	$ 198.9	$ 205.3
International Air					
Pieces, number	**860.3**	848.4	909.5	948.6	695.6
Weight, pounds	**148.8**	149.0	157.2	147.0	135.2
Revenue**	**$ 1,434.2**	$ 1,416.1	$ 1,422.8	$ 1,449.9	$ 1,254.1
U.S. Postal Service					
Pieces, number	**382.3**	380.1	377.3	360.1	412.3
Weight, pounds	**102.6**	96.2	88.4	97.8	79.7
Free Mail for the Blind and Handicapped					
Pieces, number	**53.2**	53.2	53.3	50.0	51.7
Weight, pounds	**26.6**	27.2	30.6	32.6	32.1
TOTALS* **					
Pieces, number	**201,576.3**	196,904.7	190,888.1	183,439.5	180,733.7
Weight, pounds	**25,558.8**	24,812.3	23,352.4	21,873.0	21,925.7
Revenue	**$ 60,417.8**	$ 58,032.9	$ 56,267.0	$ 54,538.2	$ 52,489.7

* Revisions have been made to amounts previously reported in 1998.
** Includes foreign postal transaction revenue.
*** Agency and franked mail are included in their classes of mail.
Some totals may not add exactly due to rounding.

(in millions of units indicated)

Mail Revenue	**1999**	1998*	1997	1996	1995
Registered**					
Number of articles	**13.7**	15.3	16.3	18.6	20.5
Revenue	**$ 95.2**	$ 89.2	$ 95.2	$ 113.3	$ 117.5
Certified**					
Number of articles	**268.1**	278.3	284.5	270.8	288.8
Revenue	**$ 377.3**	$ 385.7	$ 342.8	$ 558.5	$ 560.3
Insurance**					
Number of articles	**48.6**	40.8	33.7	28.7	28.9
Revenue	**$ 91.5**	$ 72.5	$ 61.0	$ 49.2	$ 51.8
Delivery Receipt Services***					
Number of articles	**249.3**	237.3	260.5	-	-
Revenue	**$ 284.7**	$ 262.1	$ 289.4	-	-
Collect on Delivery					
Number of articles	**4.0**	3.8	4.7	4.9	5.3
Revenue	**$ 19.8**	$ 17.8	$ 21.8	$ 21.3	$ 20.8
Special Delivery					
Number of articles	**—**	—	0.1	0.4	0.3
Revenue	**$ —**	$ —	$ 1.4	$ 3.8	$ 2.9
Money Orders					
Number issued	**220.9**	208.6	206.1	214.0	201.8
Revenue	**$ 228.3**	$ 210.1	$ 212.2	$ 221.3	$ 196.0
Face value of issues (non-add)	**$28,491.1**	$26,724.6	$26,180.4	$25,355.6	$24,608.5
Other					
Box rent revenue	**$ 667.2**	$ 617.4	$ 577.6	$ 570.3	$ 531.8
Stamped envelope and card revenue	**$ 30.7**	$ 17.4	$ 17.1	$ 15.9	$ 25.4
Other revenue, net	**$ 442.0**	$ 299.8	$ 247.0	$ 217.2	$ 180.0
TOTALS					
Special Services revenue	**$ 2,236.7**	$ 1,972.1	$ 1,865.6	$ 1,770.8	$ 1,686.5
Mail revenue	**$60,417.8**	$58,032.9	$56,267.0	$54,538.2	$52,489.7
Operating revenue before appropriations	**$62,654.5**	$60,005.0	$58,132.6	$56,309.0	$54,176.2

* Revisions have been made to previously reported amounts in 1998.
** Return receipts have been broken out from registered, certified, and insurance special service categories.
*** Delivery Receipt Services contains Return Receipts, Return Receipts for Merchandise, and Delivery Confirmation. Delivery Confirmation Service began during 1999.

	1999	1998	1997	1996	1995
Headquarters and Related Employees*					
Headquarters	**2,372**	2,231	1,949	1,951	1,825
Headquarters—Field Support Units	**4,357**	4,307	4,319	4,023	4,186
Inspection Service (field)	**4,334**	4,280	4,347	4,432	4,298
Inspector General	**387**	223	101	—	—
Subtotal	**11,450**	11,041	10,716	10,406	10,309
Field Career Employees*					
Area Offices	**1,875**	1,703	1,566	1,541	1,235
Postmasters/Installation Heads	**26,108**	26,156	26,256	26,489	26,564
Supervisors/Managers	**38,835**	36,508	35,708	35,282	34,732
Prof. Admin. Tech. Personnel	**11,097**	11,703	11,369	11,035	10,987
Clerks	**292,400**	293,829	280,818	276,964	273,526
Nurses	**188**	189	193	188	188
Mail Handlers	**62,237**	62,247	59,147	58,305	57,352
City Delivery Carriers	**242,300**	240,813	234,033	238,370	239,877
Motor Vehicles Operators	**9,270**	9,026	8,625	8,429	8,029
Rural Delivery Carriers—Full Time	**54,588**	52,241	49,957	48,340	46,113
Special Delivery Messengers	**—**	7	1,331	1,463	1,517
Bldg. & Equip. Maintenance Personnel	**41,873**	41,054	39,954	39,272	38,161
Vehicle Maintenance Personnel	**5,574**	5,524	5,501	4,882	4,794
Subtotal	**786,345**	781,000	754,458	750,560	743,075
Total Career Employees	**797,795**	792,041	765,174	760,966	753,384
Non-Career Employees*					
Casuals	**25,067**	25,711	32,615	24,696	26,401
Non-Bargaining Temporary	**707**	784	774	654	596
Rural Subs/RCA/RCR/AUX	**57,357**	56,265	54,834	53,768	50,269
PM Relief/Leave Replacements	**12,485**	12,613	12,687	12,724	12,774
Transitional Employees	**12,355**	17,222	26,789	33,066	31,548
Offices, Stations, and Branches					
Number of post offices	**27,893**	27,952	28,060	28,189	28,392
Number of stations and branches:					
Classified stations and branches	**5,788**	5,661	5,446	5,521	5,651
Contract stations and branches	**2,903**	2,974	2,907	2,897	3,480
Community post offices	**1,585**	1,572	1,606	1,605	1,626
Subtotal	**10,276**	10,207	9,959	10,023	10,757
TOTAL OFFICES, STATIONS, AND BRANCHES	**38,169**	38,159	38,019	38,212	39,149

* Complement data uses On-Rolls and Paid Employees Statistics database.

Glossary

Accruals: Revenue and expenses that are recorded as they occur, even though they may not have actually been paid.

Amortize: To reduce the value of an asset through regular charges to income over time; or to write off expenditures by prorating them over a period of time.

Appropriation: Public funds set aside by Congress for a specific purpose.

Barcode: A series of vertical full bars and half bars representing the ZIP Code information printed on a mailpiece to facilitate automated processing by barcode reader equipment.

Callable: Debt that the Postal Service as the borrower has the right to repurchase.

Capitalize: To treat an expenditure as an asset; or to compute the present value of a future payment that will be paid over a period of time.

Contribution: The difference between the revenue from a class of mail and that class's volume-variable costs. For example, if a class of mail has revenues of $1.5 billion and volume-variable costs of $1 billion, its contribution is $500 million, which means that this class of mail covers its costs and contributes $500 million to the common costs of all mail services.

CustomerPerfect!: A quality process management system that builds customer satisfaction and excellence into every process and procedure of the Postal Service.

Delivery Confirmation: Delivery Confirmation is a special service designed to provide the date of delivery or attempted delivery for Priority Mail and Standard Mail (B)—parcels, bound printed matter, and library mail.

Depreciate: To periodically reduce the estimated value of an asset over the course of its useful life.

Deputy Postmaster General (DPMG): A member of the Board of Governors, jointly appointed by the Postmaster General and Governors.

Economic Value Added (EVA): A measure of financial performance calculated by taking net operating income and subtracting a charge for the capital used to produce that income (EVA = net operating income – capital charge).

Equity: The difference between the value of all assets less all liabilities.

Express Mail: The Postal Service's premium delivery service, providing guaranteed overnight delivery for documents and packages weighing up to 70 pounds. Both domestic and international services are offered.

First-Class Mail: A class of mail including letters, postcards, and postal cards, all matter wholly or partially in writing or typewriting, and all matter sealed or otherwise closed against inspection.

Fixed Asset: Any tangible property such as buildings, machinery and equipment, furniture, and leasehold improvements.

Generally Accepted Accounting Principles (GAAP): The rules and procedures of accepted accounting practice as defined by the Financial Accounting Standards Board.

Global Package Link (GPL): International package delivery service and state-of-the-art information system for volume mailers sending merchandise to participating overseas markets.

Global Priority Mail (GPM): A category of international mail that provides fast service at attractive rates to 27 countries.

Gross Domestic Product (GDP): The total market value of all the goods and services produced in one year in the United States.

Inspector General: The Inspector General is appointed by and reports directly to the Governors of the Postal Service and is independent of postal management. The Office of Inspector General (OIG) primarily investigates and evaluates programs and operations of the Postal Service to ensure the efficiency and integrity of the postal system.

Leasehold: An asset that gives the Postal Service the right to use property under a lease.

Liability: Any debt or obligation the Postal Service is bound to pay.

Negative Equity: The amount of money that the Postal Service does not have to settle all of its obligations if they were to come due immediately.

Parcel Select: A product offering workshare discounts for volume shippers.

PC Postage: Products approved by the Postal Service for development and distribution by commercial vendors. Postage is purchased and printed using personal computers and the Internet.

Periodicals: A class of mail, formerly called second-class mail, that consists of magazines, newspapers, and other publications.

Point-of-Service ONE (POS ONE): An electronic retail sales device that assists employees with retail transactions and provides product inventory and sales information.

Postal Inspection Service: The investigative arm of the Postal Service responsible for investigating criminal acts involving the mails and misuse of the postal system.

Postal Rate Commission (PRC): An independent federal agency that makes recommendations concerning Postal Service requests for changes in postal rates and mail classifications.

Postmaster General (PMG): The chief executive officer of the Postal Service, appointed by and serving at the pleasure of the Governors.

Present Value: The value today of a future payment that is discounted at a stated rate of compound interest. For example, the present value of $100 that will be paid to the Postal Service 10 years from now is about $38.55, if we discount that $100 at a rate equal to 10 percent interest compounded annually.

Priority Mail: Priority Mail provides two- to three-day delivery service.

Priority Mail Global Guaranteed: An alliance with DHL Worldwide Express, Inc. providing day-certain delivery guaranteed service to 65 countries around the world.

Processing and Distribution Center (P&DC): A large mail-sorting and dispatching plant that serves as a hub for mail originating from post offices, collection boxes and customer mailboxes, and large-volume mailers in a designated service area.

Receivable: Money that is owed to the Postal Service.

Recognize: To record in Postal Service accounts as income or expense.

Returns@ease: A set of merchandise return options that makes returning items bought online, through catalogs, and by phone easier for buyers and participating retailers.

Standard Mail: New name for the merger of third-class mail and fourth-class mail as one class under Classification Reform implementation of July 1, 1996.

U.S. Mail: Any mailable matter that is accepted for mail processing and delivery by the Postal Service.

United States Postal Service (USPS): The successor to the Post Office Department, the USPS was established by the Postal Reorganization Act of July 1, 1971, as an independent, self-supporting federal agency within the executive branch.

Universal Service: The Postal Service's mandate and commitment to the nation to provide mail delivery service at uniform and reasonable rates to everyone, everywhere, six days a week.

Year: As used in the financial section of this report, it means the Postal Service fiscal year, which is the 12-month period during which the Postal Service keeps accounts, beginning Oct. 1 and closing Sept. 30.

Actor, comedian and
singer Liz Torres at her
Pasadena, CA home
with her Yorkie,
Sarita Montiel,
and her mail.

Stamps
for 200c

This preview of the 2000 stamps is a tentative schedule, subject to changes in the issue dates and locations.

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www.usps.com/history/anrpt99

Stamps for 2000

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Patricia Roberts Harris
January
Washington, DC

Wile E. Coyote and Road Runner
April

California Statehood
September 8
Sacramento, CA

Edwin Powell Hubble
April 25
Pasadena, CA

University of Utah Stamped Card
February
Salt Lake City, UT

Library of Congress
April 24
Washington, DC

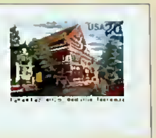
Madonna and Child
October
Chicago, IL

Adoption
May

Middlebury College Stamped Card
May 19
Middlebury, VT

Stampin' The Future
July 13
Anaheim, CA

Distinguished Soldiers
May



Ryman Auditorium Stamped Card
March
Nashville, TN

Claude Pepper
September
Tallahassee, FL

Lunar New Year (Dragon)
January
San Francisco, CA

Deep Sea Creatures
October 2
Monterey, CA

Holiday Contemporary: Santa
October
Santa Claus, GA

Space Achievement and Exploration
July
Anaheim, CA

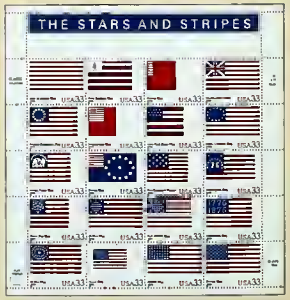
U.S. Navy Submarines Prestige Booklet
April
Groton, CT

Youth Team Sports
May

Holiday Celebrations: Thanksgiving
October
Dallas, TX

Thomas Wolfe
October 3
Asheville, NC

Pacific Coast Rain Forest
March
Olympia, WA



The Stars & Stripes
June 14
Baltimore, MD

The White House
Washington, DC

Louise Nevelson
April 6
New York, NY

Summer Sports
May

UNITED STATES POSTAL SERVICE®

We Deliver for You.

There's a moment once a day in every household in America when people stop whatever they're doing and go through the mail. In this year's annual report, that moment is depicted across America.